













# THE MIDDLE WAY

A STUDY OF THE PROBLEM OF  
ECONOMIC AND SOCIAL PROGRESS IN  
A FREE AND DEMOCRATIC SOCIETY

BY

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## INTRODUCTION

EVER since we emerged from the last economic crisis the attention of the Government and of the country has been largely concentrated upon foreign affairs. While a situation of such grave international tension exists the whole effort of policy is necessarily directed towards finding an escape from the dangers of war. And to the extent to which diplomacy cannot be relied upon to find a solution, ordinary prudence demands that measures should be taken to increase the preparedness of the nation to defend itself against attack.

The crisis in international political relationships followed hard upon the crisis in domestic and in world economic affairs. This was not an accidental occurrence; the two things are closely related. It was as a result of the strain thrown upon the internal economic and political systems in the different countries and the action, both economic and political, taken in an effort to relieve that strain, that friction and tension between the nations were increased.

“The isolated, divergent and contradictory measures by which the nations, in the first period of the late crisis, attempted to protect themselves against it, and push off the burden on to their neighbours, have only served to precipitate it and to render it yet more grievous for all.”<sup>1</sup>

It will be seen, therefore, that the crisis did not end, even for us, with the beginning of our trade recovery. The pressure had merely been transferred from the

<sup>1</sup> Report of M. Van Zeeland.

sphere of domestic affairs into the international realm. Widespread unemployment, the collapse of foreign trade, the reduced standards of productivity and of consumption, and all the distress associated with the dislocation of economic life were only the first consequences of crisis. The secondary effects have since been expressing themselves in the embittered relationships between nations and the intensification of nationalism. Some countries have sought relief from their internal stresses by striving to secure for themselves economic and political advantages abroad either by the use of arms or by the threat to use them.

This sequence could be carried still further. The deterioration of international relations has led to a vast expenditure on armaments all over the world. This expenditure has, in turn, caused a flow of workers into employment. It has thus assisted the redistribution of purchasing power which is reflected in an increased demand for consumers' goods, helping to sustain what we call recovery.<sup>1</sup> The circle will be completed if, and when, as a result of the pacification of the world, or a position of stalemate in the balance of forces, there is a slowing down of the expenditure by which recovery has been artificially sustained, and the world is landed back in, say, 1940 at about the same point in this queer cycle from which it started a decade earlier.

When we search for the basic causes out of which this whole tangle of national and international derange-

<sup>1</sup> It should, of course, be remembered that the expansionist effect of armament expenditure may be counterbalanced by the deflationary loss of confidence due to the international situation which has made armaments necessary. That this process appears to be already at work in Great Britain is shown by the fall in security values and the rise in unemployment during recent months.

ments arises, we are driven back to a consideration of man's social difficulty in finding a method by which he can gain for himself a higher and more secure standard of life. We have then to ask whether this problem is to be solved by first trying to bring about agreements between different national communities on the general economic issues affecting their mutual interests; or whether any abiding solution of international difficulties is only possible when the internal economic and social structure in each of these communities has been adjusted in such a way as to enable them to abandon competitive warfare and enter into an organised relationship with each other with a view to the most rational exploitation of the world's resources for the benefit of all.

Probably the answer to that question is that both lines of approach must be pursued simultaneously; that the international difficulties will yield more easily to a peaceful solution the closer we come to a solution of our internal problems. At any rate it is clear that a discussion of domestic policy can no longer be regarded as irrelevant to the vital issues of peace and war that periodically confront us. A rational organisation of the internal life of national communities would undoubtedly further the rational organisation of international relationships. If each nation had eliminated the conflicts that take place within its own frontiers, there would be less danger of reactions which intensify the struggle between national groups in the world at large.

We have the opportunity of demonstrating to other countries the means by which an expeditious and peaceful settlement of internal problems can be achieved. It will be disastrous if our preoccupation

## INTRODUCTION

with foreign affairs leads us to neglect our problems at home. The object of all our endeavours must be to lift the burdens of poverty and distress that weigh so heavily upon great masses of the people, in order to build up a secure and adequate standard of life for all. We are familiar with the verbal connection of Peace and Plenty, but we have not yet fully realised the danger that Want may lead to War. Preoccupation with foreign policy may explain, but can never excuse, neglect of the task of social amelioration, for neither foreign policy nor anything else has any meaning apart from the contribution that can be made to social progress. The meaning of social progress is the liberation of men from want and the unfolding of new possibilities of a more satisfactory and abundant life. Whether we are dealing with foreign or domestic policy, it is this objective that must be borne in mind.

The subject of this book is domestic policy. It may seem strange to have started an introduction to it by reference to the wider issues of foreign affairs, but there is, as I have tried to explain, a definite connection between the two. A political policy is, or ought to be, one thing consistent in itself and in its application to the whole field of social effort. If, on its economic side, it would plunge the country into war, or, if on its diplomatic side, it would plunge our people into poverty, then it must be judged in the light of these possible consequences. There can be no complete separation of home and foreign affairs.

I have therefore felt that a survey of the domestic field and the elaboration of proposals to deal with the pressing social evils of poverty and insecurity might be of some value, especially at a time when so many

of our leaders, both in the Government and in the Opposition, have been absorbed in the day-to-day problems of foreign policy. This book was written in the hope—not yet, alas, realised—that by the time it came to be published the war danger would have receded and that attention would again have swung back to the treatment of our problems at home. At any rate constructive social thinking must, of necessity, be based on the assumption that the society under discussion will have escaped annihilation. Unfortunately this swing of attention to home affairs may come, not so much because the international problems have been solved, but because our internal problems have become more acute. Action to stave off a recurrence of depression may become the vital issue within the next few months.

But what I have devised is not a “crisis policy”. It is a programme which deals with the next stages in the path of social progress. A threatening crisis may generate the will to take action of an unconventional kind if it promises an escape from immediate difficulties. I am anxious, therefore, that the ideas here expressed should form a basis of discussion before the downward curve of the trade cycle comes, for I believe that if action were taken on these lines at an early date we could avoid the economic dislocations that often produce unfortunate political results.

This book is offered as a contribution towards the clearer formulation of the new ideas of society that have been slowly emerging since the political crisis of 1931. I hope it will be given sympathetic consideration by men and women of all parties who recognise that some new theory of social evolution must be conceived if we are to retain our heritage of

political, intellectual, and cultural freedom while, at the same time, opening up the way to higher standards of social welfare and economic security.

On reading through what I have written I am very conscious that the case might have been presented with greater clarity. It is the kind of book that has to be written before one can see clearly how it *ought* to have been written. But I have not the time to alter it if it is to serve its purpose, and I offer it in its present form in the hope that the reader will seek to understand the meaning that lies behind the faulty presentation.

H. M.

**PART I**  
**THE NEEDS**





# CHAPTER I

## THE EMERGENCE OF A NEW DOCTRINE

THE great depression, with the political crisis to which it gave rise, is now coming to be regarded as past history. In the writings even of economists and historians it is referred to as "the economic blizzard which struck this country in 1930". The implication of a great deal of present-day comment is that it was an unfortunate accident which plunged us into temporary conditions of poverty and depression, and that we have now been successful in "climbing out of the slump" back to, and beyond, the old level of productivity and prosperity.

To some extent this mode of expression is merely a result of the difficulties of language, but the great majority of people quite clearly regard the depression and crisis as a transitory and fortuitous occurrence. This is, of course, a profound error. The crisis was not an accident. The initial impulse may have been the result of errors of judgment on the part of the Central Banks of Britain and America. But the disastrous plunge into such a depth of depression was a result of the changes in the whole balance of production in the world which had been developing for many decades. Moreover, in order to deal with the crisis, political and economic changes of a permanent character were carried out. It was out of the crisis that the British tariff system was born. The crisis gave rise to the schemes for planning the production

and marketing of a wide range of agricultural products; to schemes for the compulsory reorganisation of industries like coal mining and cotton spinning; it made imperative voluntary schemes of reorganisation in a number of other industries; it forced Britain to abandon the gold standard, set up an exchange equalisation fund, and to enter into new kinds of commercial agreements with other countries; and it led to the adoption of quite unorthodox methods of dealing with the situation in the depressed areas.

These are some of the political and economic results. The psychological effects have been no less important. Great indeed were the changes which the shock of crisis brought about in the minds of men with regard to economic and political *theories*. Formerly, they had been content to accept, as the basis of their political thought, the economic theories that had been evolved in an earlier epoch of national and world history, when the basic circumstances of economic life were wholly different. Throughout the whole of the post-war period there had been growing an uneasy consciousness of something radically wrong with the economic system; and this uneasiness had overshadowed political controversy both within and between all the political parties for many years. One of the consequences of the crisis was to confirm these suspicions and to liberate men's minds from a continued subservience to the economic orthodoxy of the pre-war world.

The average citizen of this country had been bewildered by the mysteries of economic theory and persuaded into an almost fatalistic acceptance of what he had been taught to regard as the operations of economic law. The idea that the laws of economics might be dominated by the will of men, and that

“the system” might be made responsive to life rather than life to “the system” was one which even intelligent and progressive men were chary of expressing, lest they might bring down upon their heads the contempt and the condemnation of the learned economists. But the crisis forcibly revealed the strangely haphazard and insecure character of our economic position.

The widespread suffering and distress which, after the crisis, became the subject of political discussion, impelled thoughtful men to review and to question the established theories of society and to formulate what seemed to be common-sense schemes for the better regulation of our economic life.

These schemes, put forward at first in a modest and tentative way, attracted a great deal of attention during the worst years. The tide of depression had risen so high as to menace the position of many sections of the population which had formerly felt relatively secure. The obvious over-capacity and competitive redundancy in many industries generated in the minds of those responsible for their conduct new ideas of co-operative organisation. The interdependence of all forms of economic activity was more clearly revealed. The need for a more rational direction of economic effort was felt more acutely than ever before. Planning proposals that would have been impatiently rejected a year or two earlier were discussed with interest. Men of widely different political outlook and training came together prepared to sink their political prejudices in a common effort to work out practical plans for the regulation of industry and commerce to the common advantage. A new school of thought came into existence, interested in the wider aspects of policy

and in new conceptions of political, industrial, and general economic planning.

The economists and other experts have had no difficulty in revealing a considerable content of error or inadequacy in many of the proposals which have been advanced. This is not surprising. Their purpose—the finding of some method of conscious regulation of our economic life, not necessarily either purely Capitalist or purely Socialist—is indeed novel and untried. Moreover, to a large extent the schemes so far advanced have been limited in their objectives to the overcoming of particular problems. No comprehensive scheme of national planning has yet been evolved. Expert criticism has revealed the deficiencies of partial or piecemeal planning, and has made it clear that we must carry the idea of planning further, and evolve such a national scheme. We must take account of *all* the problems, and of all the repercussions of partial schemes with limited objectives. If we do not widen its scope, the whole idea of planning will be discredited. Its opponents will find it very easy to demonstrate that the limited schemes in many cases cure particular evils only by the creation of other evils on some different sector of the economic front. From these results they will promptly argue that we must abandon altogether the attempt to control by conscious effort our economic destiny.

Criticisms of these limited schemes of planning have come with equal force from the “right” and from the “left”. Both groups reveal a tendency, common to most controversies, to distort the arguments which they wish to refute and to discredit the authors of the new theories by attributing to them views which they do not hold. In this book I want to make it

clear from the outset that, so far as the present writer is concerned, the object of planning is *not* to restrict production and solve the problem of plenty by creating an artificial scarcity. Such a course would only promote the immediate interests of those who take profits and would be injurious to those who depend for their livelihood upon wages—and therefore upon the amount of goods their wages can buy. The object of economic effort must be to *increase* the production of wealth and, as a result of rising prosperity, to enable society to increase the leisure and cultural opportunities of *all* the people. In so far as the criticisms discuss whether this result will in fact be achieved they are legitimate and helpful.

The weaknesses of partial planning seem to me to arise from the incomplete and limited application of the principles of planning. The lesson of these errors, which I regard as errors of limitation, is not that we should retreat. On the contrary, we must advance, more rapidly and still further, upon the road of conscious regulation.

To justify that view and to deal adequately with the vast field of reasoning and investigation that it involves is beyond my powers; but possibly, in endeavouring to develop at least a tentative policy for overcoming the social evils of the day, I may be able to make some contribution that will be considered worthy of examination and discussion. Here we live in one of the few remaining countries in Europe in which it is still possible to seek to mould the course of events by an appeal to reason. The preservation of this freedom depends upon our ability to formulate and carry out an economic and social policy which will enable our fellow countrymen to realise their aspirations by peaceful

methods of evolutionary development. It is not enough to deplore and condemn the political excesses and the economic inadequacies of the totalitarian states. We must *prove* that democracy can do better.

The violent upheavals and brutal intolerances that have disfigured the pages of recent world history are not merely a reflection of human wickedness on the part of a few men. The political methods that have been adopted can thrive only upon a social basis of hopelessness and despair. The prolonged neglect of social problems; lethargic indifference to the suffering of unfortunate sections of the people; stubborn resistance to essential changes by the more fortunate classes; the suppression of discontent rather than the removal of the evils that make it legitimate: it is these preceding causes that usually prepare the inflammable social material and place society at the mercy of the man with a political match to ignite it. At the moment we are inclined to pride ourselves that we in Britain are different. In the long run, however, the only way we can justify that claim is by making quite sure that we do not repeat the errors that have brought such disastrous consequences elsewhere.

Our social problems are, so far, less acute. Our economic strength has enabled us, so far, to maintain a system of social services, second to none in the world, designed to soften the blows of economic hardship upon the unfortunate. Our political reactions are correspondingly less violent. But the whole structure that has been built up rests upon our ability to maintain and increase the productivity on which our higher standards depend. In taking a legitimate pride in our achievements, let us be quite clear at the same time that there are no grounds for complacency. The

condition of the people is by no means satisfactory. Poverty and insecurity are the familiar burdens of their lives. When this is contrasted with the possibilities of material welfare that would flow from a full utilisation and scientific exploitation of our productive resources, it ceases to be merely deplorable and becomes shameful and intolerable.

Man lives with his eyes on the future. He wastes little time in congratulating either himself or his benefactors because his present conditions of life are better than the conditions of his predecessors. He measures statesmanship, social welfare, economic efficiency, and cultural opportunity less by comparison with what has been than with what could be. While he is still frustrated in his personal life by the irritating limitations of unnecessary poverty, he will seek by whatever means comes to his hand to free himself from those restraints and to enter into the richer inheritance which scientific and intellectual progress has made possible. He knows instinctively that the gains of the past can be retained and consolidated only by new victories in the present. While there still remain any impediments to the economic emancipation and social liberation of men, constructive thinking is a moral and social duty.

The problems of every generation have something new in them. The environment in which economic and social activity is carried on is continually changing. The theories that were suitable in one decade may have been falsified in the changed circumstances of the next. It is because of this dynamic character of society that constructive thinking is a constant and imperative necessity. No man can ever know so much that he can afford to close his mind to new ideas. He may be so experienced as to be better able than his fellows to sift



the new ideas and select what is best in them. If he has this ability, then he should be assisting in the formulation of new theories to fit the new circumstances of life rather than reiterating those truths of the past that may have become the half-truths of the present. We have been fated to live through a period of world history when the actual conditions of life have become wholly out of harmony with our productive possibilities. The gap between what is and what might be has been greatly widened. To bring the new forces of production into a harmonious control and to utilise them in a rational way for the abolition of poverty and insecurity will require new methods of social organisation that were unsuitable or inapplicable in the past.

It is usual in a book of this kind to start with an elaborate analysis of the present system. I propose to adopt a different course. Let us, first of all, try to discover what it is that people want. That is to say—how do they want to live; what are the basic essentials necessary to enable them to live their own lives in their own way? Let us make human liberty the first objective of our plans—that is, liberty from the humiliation and restraints of unnecessary poverty; liberty from any unnecessary burden of toil; liberty from the haunting fear of insecurity. This means that, instead of working downwards from the realms of abstract theory, we shall work upwards from the simple needs of mankind to the complicated economic and social organisation necessary to supply those needs. By presenting the case in this way, we may be prevented from forgetting that the purpose of economics is to serve life; to make it fuller, richer, and happier; and to provide abundant scope and opportunity for human variation.

The preservation of freedom is intimately related to economic and social progress. The cultural gains of the past can be carried over into the future only if the essential changes in the structure of society can be accomplished by peaceful means. When social evolution slows down, the tide of revolution rises. What moderate men fail to accomplish by reason, intelligence, and the voluntary acceptance of inevitable change, other men will seek to achieve by the bludgeon of violence. In the process they will destroy not only what is obsolete and decadent but also the cultural treasures which have been accumulated by the pro-founder reflections of less ruthless men. We must look, therefore, not merely for a makeshift policy to deal with the immediate and most pressing needs, but for an imaginative plan of social reconstruction which will lay the basis for a long period of social peace.

The pace of social change has been too slow for too long. The technical possibilities of production have been developing more rapidly than social adaptation. Bold changes have now become necessary to provide for the full utilisation of the new powers that science and invention have conferred. If that initial stride forward can be made in the reconstruction of our economic and social life, we shall have made a great advance towards a long period of social peace in which the cultural gains of the past will be preserved.

This idea of a bold policy of reconstruction is not new. I attempted to express it at the time when the first National Government put forward its proposals to deal with the crisis in 1931. I suggested that the granting of industrial protection should be made conditional upon industrial reorganisation; that the agricultural marketing schemes should be accompanied

by action directed towards increasing the power of the people to buy and consume the products to be marketed; and that the new financial policy should be supplemented by an effort to direct investment into the correct channels to bring about a new equilibrium in production, so that goods would be produced in the quantities that would enable them to be exchanged at economic prices.

Two years later, in 1933, I published a book under the title of *Reconstruction*, in which a far-reaching and ambitious programme of industrial and general economic reorganisation was advanced. It was justified by the plea that, until a new structure of industrial organisation and a new co-ordination of financial, industrial, and political policy had been achieved, the machinery did not exist which would enable any government to make its economic policy effective throughout the whole field of productive effort. The fear was expressed that without some such machinery for the co-ordination and direction of economic effort we should find ourselves in a future situation of threatening crisis without the power to make industry, commerce, and finance sufficiently responsive to the guidance of a central authority to enable us to avoid a recurrence of depression.

Others have made more valuable contributions to the same line of thought; and looking back upon the legislation, and the whole trend of opinion, in the subsequent years, there is no reason to be dissatisfied with the influence that these ideas have had. But as the full tide of the 1931 depression began to recede, interest in all drastic proposals of this kind began to slacken. Trade and industry were beginning to recover as a result of the fortunate combination of three

factors—first, the internal expansion of certain industries as an initial effect of the application of Tariffs; second, the continuation of cheap money conditions as a result of the abandonment of the gold standard; third, our ability to continue to buy our imports of food and raw materials at low prices because of the prolongation of depression in the primary producing countries, while the markets for their produce were still over-supplied. This process of internal recovery has been continued, partly by the natural tendency towards economic readjustment in the world, and partly by the programme of rearmament expenditure upon which we, together with all other countries, have embarked.

Throughout the period of this upward swing it can hardly be expected that any drastic policy of reconstruction would be generally accepted. But we have already reached a stage when many observers are beginning to anticipate the next slump. By the time this book is published the British public may have become aware of the dangers ahead of us. It may have been revealed to them that the kind of recovery which we have enjoyed during the last three years has been partly artificial; that it has been, to some extent, at the expense of eating into the resources of the nation by mortgaging the future. Then, they may turn, late in the day, to the consideration of policies by which we may be freed from the operations of a trade cycle in which the ups and downs are likely to become more and more acute unless we can acquire the power to control it.

The previous failure of our statesmen to take adequate action for the stabilisation of prosperity will have been regrettable; but it may be that they, and the

general public, will then be in a state of mind more receptive to new ideas. Even so, they will be more interested in a set of proposals put forward in definite form than in the presentation of new theories which leave their practical application still to be worked out. For this reason I have thought it worth while to experiment with a different method. Starting from the point of the requirements of the people, not only materially but in terms of life as a whole, we shall reach only at a later stage the theories which seem to emerge from this empirical approach.

## CHAPTER II

### LIFE AND LIBERTY

IN approaching the question of man's life and happiness from the angle of his economic, social, and political relationships, I am not asserting that man can be made happy by increased wealth or by any alteration in the legal forms or social customs of the community in which he lives. Happiness is an elusive thing which will always contrive to escape those who go consciously seeking it. It is supremely personal; a light which illuminates the mind and spirit of those who, for any of an infinite variety of reasons, have become ready to receive it. But because we believe that happiness is personal and is achieved or lost by the individual alone, we must not make the mistake of assuming that the sum of human misery cannot be reduced by the conscious effort of men both individually and collectively. We may be baffled by the question—What causes happiness? But we know quite clearly and definitely some of the sources from which unhappiness springs.

Leaving aside the whole question of "man's inhumanity to man" in personal relationships, it is possible to isolate certain economic and social circumstances which we know to cause human suffering, unhappiness, and despair. The whole of man's history and progress has been a struggle against restraints and limitations whether material, intellectual, or spiritual. His first need is food; his second is access to knowledge; his third

that we reduce or destroy the impulse towards human variation.

Let us clarify this by example. Suppose it was decided that every citizen was to be guaranteed the inalienable right to an agreed minimum of requirements in housing, clothing, and food. In return for this it would be necessary to insist that every individual should give to society, let us say, 20 hours of labour per week—that is assuming 20 hours to be the labour-time needed to produce this supply of goods. This would be a communal decision inflicting no hardship on the individual because the goods would be essentials which he would, in any case, have to work for in order to live, and to work for them co-operatively would be an economy of his time.

But suppose the majority in society decided that this communal agreement should be extended and that every citizen should be made to work 50 hours per week in order that each could be supplied not only with basic essentials but with motor cars, grand pianos, fur coats, wireless sets, dinner jackets, golf clubs, and silk hats. This would result in an intolerable interference with the rights of the individual. The unwilling minority might quite reasonably say that they had no desire to possess or use any of these things; that they wanted to read books, cultivate a garden, or just sit in the sun; they could rightly claim that the majority had no right to enslave them for 50 hours every week; that they preferred a simple life and leisure rather than a luxurious life and slavery.

There is, therefore, a dividing line to be drawn between the efficient organisation of society for the supply of *essentials* of life which are the common need of all citizens, and an organisation which pushes

collectivism beyond that line and submerges individuality in a slavish subservience to political authority. There are extreme examples of this authoritarianism today which we may be in no danger of following, but let us be equally clear that the same error *could* occur in a democratic state. The principle I am seeking to illustrate is that the individual has the right to demand that the economic life of society should be so organised as to guarantee the basic essentials of life in return for the minimum surrender of his time and liberty; but that society, on the other hand, cannot extend this principle to extreme lengths without infringing the right of the individual to live his life in his own way.

We have said that man's first need is food—meaning, of course, not only food but clothing, shelter, and all the other elementary requirements for physical health. Let us assume for the moment that these physical needs can be satisfied without unduly robbing him of leisure. The next need we stipulated was access to knowledge, and to guarantee that, it is necessary that the third stipulation should also be fulfilled, freedom of thought and expression. He requires not only access to the knowledge permitted by a tyrannical State, but the opportunity of free association and communion with men holding different views. For it is only out of the conflict of opposing views that truth and intellectual progress can emerge. We are assuming, also, that in the period of his youth he will be given the fullest possible opportunities of education. Again, it must be an education which seeks, not to make him either a tool of political policy, or merely an efficient worker, but a fully developed individual with the mental and moral equipment necessary for an interesting and happy personal life.



The general conclusion of this reasoning is that the first task of economic policy is to build, as it were, a platform of material welfare and security for all men, but that the height of the platform should not be higher than is attained by the supply of those things which all men want. In making this more precise for the purpose of constructing an economic policy for today, we shall remember, of course, that future generations may desire to raise the level. But the way to determine, *in any period*, what goods and services fall properly into this category of basic essentials is to discover the point at which variation in desires, purposes, objectives (way of life) begins. This, we have found, is important, because to extend too widely this social contract, into which all men would be compelled to enter, is to infringe the freedom of the individual and frustrate to that degree his personal life. What we have to keep clearly in our minds is that man is *both* a social animal and an individual. Without communal organisation he cannot live like a man; but in so far as his personal life (in which he differs from his fellows) is violated, he is brought nearer to the level of the beasts.

The correct relationship of the individual to society and of society to the individual is a subject that has commanded the attention of social thinkers since society began. One of the most brilliant of them during the last century laid down a general principle which might usefully be quoted today.

“That principle is, that the sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number, is self-protection. That the only purpose for which power can be rightfully exercised over any member of a civilised community, against his will, is to

prevent harm to others. His own good, either physical or moral, is not a sufficient warrant. He cannot rightfully be compelled to do or forbear because it will be better for him to do so, because it will make him happier, because, in the opinions of others, to do so would be wise, or even right. These are good reasons for remonstrating with him, or reasoning with him, or persuading him, or entreating him, but not for compelling him, or visiting him with any evil in case he do otherwise. To justify that, the conduct from which it is desired to deter him must be calculated to produce evil to someone else. The only part of the conduct of anyone, for which he is amenable to society, is that which concerns others. In the part which merely concerns himself his independence is, of right, absolute. Over himself, over his own body and mind, the individual is sovereign.”<sup>1</sup>

This is a general principle with which most people in this country will agree. But it is only a general principle. Its mere enunciation does not solve the problems of its application. With every change in the society to which it is to be applied, there is a change in the relationships of individual men to one another. The conduct that is “calculated to produce evil to someone else”, the actions against which some form of social “self-protection” becomes necessary, differ with every change in the structure of society and every enlargement of the functions which society undertakes to perform. For each generation of men the application of the general principle presents new problems. Technical advances in the methods of producing wealth tend to make the individual more dependent upon social organisation for his livelihood. He gets further and further removed from the position of self-supporting independence and becomes more

<sup>1</sup> John Stuart Mill, *Essay on Liberty* (1859).

and more a cog in a co-operative system of production. It becomes necessary, therefore, for society to accept greater communal responsibility for the governance of economic operations and for the welfare of the individual.

This problem has arisen in an acute form in society today. In an age of scarcity men agreed, or were forced by circumstances to submit themselves, to the discipline of co-operative methods of production. By these means we have achieved the power to banish scarcity and produce plenty. Our productive efficiency has, however, outstripped the advance of our social efficiency. Poverty and insecurity have not yet been abolished. The individual has sacrificed his position as an independent producer. He has, as it were, pooled his economic fortune with other members of society. He has become to a greater extent part of society. The individual units of which society is comprised have been knit closer together in a greater mutual dependence. The relations of society and the individual have thus been changed, and the question arises, what new responsibilities should be undertaken by society towards the individual and what new duties and obligations the individual must undertake in return.

In trying to find an answer to this important general question we might start by enumerating some of the things which, on humanitarian grounds alone, no one would deny that a wealthy society should guarantee to its citizens. As we move up the scale we shall encounter other items which ought to be included in the "social contract" of inalienable rights and duties, but about which there may be room for doubt as to whether it is *possible* to include them. It should be

remembered, however, that in this chapter we are not discussing whether, and by what means, a minimum supply of certain goods and services could be guaranteed. We are seeking to discover what is the minimum basis of material welfare and security that man must enjoy if he is to maintain his physical efficiency and increase his liberty. Having done so, we shall be able to devote attention to the technical and political question of how, or to what extent, the economic and social system can be adjusted to produce these benefits.

The question might be approached in two different ways. A charter of human needs, essential in the new circumstances of the modern world, could be compiled. The items it contained might be presented either as *rights* that the individual is entitled to demand from society or as *obligations* that society owes to the individual. Political controversy is often unconsciously concerned to quite an amazing extent with this difference in the mere verbal presentation of the same thing. The difference in presentation often arises out of psychological reactions to the inequalities of wealth. It is assumed that the benefits will always go to one section of society and that the obligations will in fact have to be undertaken by another. But this view leaves out of account the fact that the ability of each individual to share in bearing the burden of social obligations is balanced by the benefits which he has already derived from the social methods of organisation and production: and, conversely, the need of each individual to accept benefits is balanced by the extent to which some maladjustment in the economic system has caused him to be denied those advantages of social organisation for the sake of

which he surrendered his individual methods of subsistence.

The principle that society should seek to guarantee to all its members a certain minimum of human needs has already been accepted. It is enshrined in a great number of legislative enactments in this country and has governed the development of our network of social services. The question is, therefore, not one of establishing a new principle, but of what extensions of existing services are necessary, and what new obligations society should undertake today. In undertaking new obligations it will be necessary to impose new duties. In distributing greater benefits it will be necessary to ensure that the individual receiving the benefits shall give to society what services he is capable of rendering in return. This point will be dealt with more fully when we come to a detailed consideration of the unemployment problem. In any attempt to compile our charter of human needs, we should find that there are certain responsibilities that society owes to its citizens, certain rights of the citizen that society should feel obliged to observe, and certain duties and obligations that the citizen owes to society. Moreover, this complex relationship changes with every new development of technique and of organisation in the forms of social life.

We might survey these human needs and social responsibilities by starting at the beginning of the life of the individual when he is unable to take care of himself. In its own interests society should seek to provide the essential medical and nursing attention, including the special nourishment for pregnant and nursing mothers, to ensure a healthy birth and childhood. During childhood and early youth, society, again

in its own interests, should accept responsibility for ensuring adequate nourishment, medical attention, nursing care, and educational opportunities. In so far as the parents are unable to provide these essentials, the obligation should be undertaken by society as a duty it owes to the child.

In a society in which opportunities of employment occur according to the efficiency of a vast and complicated economic mechanism employing co-operative methods of production, society should accept the responsibility of so governing that mechanism as to provide the individual with the opportunity to work. If it fails to provide the citizen with work for his willing hands, then society must provide him with maintenance.

It should be the responsibility of society to find the means of granting to every one of its citizens a guarantee of security in the enjoyment of minimum standards of food, clothing, and shelter in return for their willing offer to share in the labour necessary to produce them. That is to say, society has the responsibility of creating the social and economic organisation for the continuous supply of these minimum requirements; society has *not* the right to abandon the individual because, as a result of faulty organisation, the labour which he is still willing to expend cannot temporarily be utilised.

The individual, on the other hand, must undertake certain duties and responsibilities to society. He must be willing to work. He must be willing to contribute to schemes of social insurance that society may devise to provide for the contingencies of sickness, disablement, and retirement. He must contribute out of his income to the carrying out of other national responsi-

bilities, such as the provision of public health, sanitation, amenity, and defence services, by which society defends itself against disease, ugliness, or destruction.

This rough summary conveys some idea of the scope of what I regard as a civilised society's obligation to its citizens. Or, to put it in another way, the collective responsibility of all the citizens of a society to each citizen individually. It has been expressed here in very general terms. In the following chapters the more difficult aspects of the problem will be dealt with in detail, for it is precisely with the carrying out of these social obligations that this book is concerned.

## CHAPTER III

### THE END OF RADICAL REFORMISM

IN the next chapter we shall come to a more precise formulation of minimum human needs, in the light of which our social obligations will be examined and against which it will be possible to check the adequacy of the proposals which will later be advanced. But it is first necessary to make a brief reference to the social services and protective health services that already exist in this country.

At first glance it might appear that the obligations of society to its citizens, summarised in general terms in the preceding chapter, are already being fulfilled. And it is true that the existing provisions do, in a sense, extend over the whole area of social care covered by those stipulations. Under the Health and Unemployment Insurance Acts, we provide medical attention, maternity benefits, medicinal supplies, sickness benefits, and unemployment benefits. Under the Widows' and Orphans' Contributory Pensions Acts and the State Old Age Pensions Acts, we provide incomes for widows and children when the breadwinner dies, and incomes for the aged when they are no longer able to work.

Under the Public Health Acts we provide money for hospitals, the treatment of disease, maternity, and child welfare work. We have Acts providing for the relief of the poor, the care and treatment of lunacy and mental deficiency. We spend a great deal of money on



education, and even recognise the principle of school feeding. We also provide environmental services like housing, water supply, sewerage, town planning, and so forth. The protective blanket of social care extends over the whole area, and the casual person with an aridly logical mind might well ask—What more do you want?

But the picture is not so rosy when we look at it more closely. Admirable as it is, our system of public health, environmental and social services, falls very far short of providing an adequate basis of physical well-being and security. We shall be left with no doubt on that point when we begin to examine the statistics of poverty and the existing standards of nutrition and physical efficiency. I do not intend to go into the question of the anomalies and inadequacies of the existing social services. That subject has been dealt with recently in a report issued by P.E.P. in which useful suggestions are made showing how these services might be improved and extended. The larger purpose I have in mind cannot be achieved by the methods on which the social services rely, and it is to these methods I want here to draw attention.

Our expenditure on the social services is maintained out of different forms of taxation or levy. The expenditure represents a transference of wealth from the more fortunate members of society to the less fortunate. Out of the £504 million spent on the social services in 1935, over £234 million was provided by Parliamentary votes from the National Exchequer, over £119 million by local rates or from block grants,<sup>1</sup> and over £147 million

<sup>1</sup> The block grants are provided out of the National Exchequer, but there is no separation of the amounts spent out of the block grants and out of local rates.

out of contributions paid by employers and workers to the Insurance Funds, plus some smaller amounts from fees, interest, rents, etc., accruing under the Education, Housing, and other Acts.

The extent to which a system of social services financed in this way can be extended and improved, is governed by two main factors: first, the weight of the burden thrown upon them by faulty functioning in the economic system, and second, the limits of taxable capacity—whether in the form of income tax or wage-levies upon both employers and workers. If unemployment is acute and/or wages and other incomes are low, the burden on the social services increases. If these conditions of economic depression exist, the taxable capacity of the more fortunate members of society is correspondingly reduced.

But, even apart from any reduction of the incomes of the more fortunate due to trade depression, there is at all times a limit to the taxation that can be levied without discouraging enterprise. What is the limit of taxable capacity is, of course, a highly controversial question. It cannot, however, be disassociated from that of the level of general economic prosperity. The limit fluctuates with depression and boom and, to say the least of it, makes the income foundation for any further extensions of the system unstable and insecure. While I think that, given the other circumstances by which confidence of enterprise is maintained, there is room for *some* improvement in the social services financed by these means, I feel that it has become quite clear that, in any circumstances which are conceivable under the existing conditions of economic life, *the limit of taxable capacity would be reached long before a satisfactory minimum standard of*

*comfort and security could be guaranteed by this method alone.*

Our present system of social services is, in fact, a product of the rapid and more or less automatically expanding phase of a capitalist economy. In the earlier period individual and small group methods of production had produced a lower output, but there was a greater stability and security of employment by which the individual could maintain himself by his own efforts. With the growth of industrialism, the individual producers were drawn into the factories and works which were employing the more efficient methods of co-operation and specialisation necessary to machine production. They became, therefore, more dependent upon the social organisation. They constituted a large and growing mass of the population with no independent resources of production to fall back upon. They were not only poor but had been rendered helpless by their divorce from the circumstances in which self-reliance was possible.

In the ruthless thrust forward to exploit the new methods of the machine age, this social problem became more acute. The more intricate and highly developed the industrial system became, and the further the worker was removed from access to natural resources, the greater became the need for social provision against the risks of his employment. At the same time the more highly skilled industrial operations required better-educated labour, and the great growth of towns and cities made the provision of public health services of some kind absolutely essential.

While these new problems were growing and the social will to deal with them was gradually being expressed in a policy of social provision, the profitability

of enterprise was also increasing. It was not merely that profits were high, but the opportunities for remunerative investment appeared to be limitless. The resources of the rich on the one hand, and the needs of the poor on the other, led inevitably to the demand that wealth should be transferred from the rich through the agency of taxation and used to finance the elementary obligations which society had to undertake towards the "poor and the unfortunate". The social services were definitely eleemosynary in character and have remained so even while the basis has been broadened.

For a long time it was possible to develop the health insurance and other social provisions against poverty in this way. They grew slowly, lagging behind the growing needs. But the resources of the rich were there to finance improvement on an increasing scale; and it was through this combination of circumstances that opportunity was given to that powerful political movement of reformist radicalism which lasted up to the war.

Despite the interruptions of economic expansion which inevitably occurred, and the political resistance of certain sections of the community, the system of social services was able to grow and the expenditure to increase throughout the whole of the post-war period. By that time the sense of society's duty to its citizens had grown to great strength, and the idea of maintaining the social services at as high a standard as possible was part of the accepted policy of all political parties. So firmly has this policy been accepted, that, in spite of the change in the economic circumstances, involving both the reduction in the profitable opportunities of enterprise and the enormously increased social burdens of the post-war years,

the system of social services which had been built up has not only never been in jeopardy, but has been tremendously improved in that period. We have added enormously to our expenditure on social care and protection and sought new methods of financing it, both out of increased taxation and by the adoption of the contributory system.

And yet these services are inadequate. Judged from the standpoint of the benefits to its citizens which a well-organised society, with its enormous resources of production, ought to be able to deliver, our social services are only touching the fringe of social needs. The needs have grown as rapidly as the services. The burdens have increased as quickly as our political willingness to bear them. Our expenditure is diffused over a wider area. Nevertheless we are approaching nearer and nearer to the limits of what can be accomplished by the negative procedure of transferring wealth through taxation or levy.

We have lived through half a century in which the dominant political issues were in essence humanitarian. The social policies that were the subject of controversy could all be paid for out of the expanding revenues of profitable enterprise, or by the newer procedure of contributory schemes which widen the area of taxation. On the basis of the political thinking of the Victorian reformers and their immediate successors we have travelled a long way. But we have now almost exhausted the possibilities of progress on the lines that were suitable to their time. We have reached the end of an era of radical reformism. It has become essential that we should do some fresh thinking for ourselves and try to discover the route of progress in the new circumstances of our time. A new age of

radicalism would not be able to rely upon the negative method of meeting social obligations out of the transference of wealth. It must take a firmer hold upon the economic system than that. It must improve economic and social organisation so that the weight of the social burdens will be reduced. And it must achieve an increased production of wealth out of which to support the satisfactory minimum standards that so obviously are essential. Economic reconstruction has today become the only possible or sound basis for social reform.

## CHAPTER IV

### MINIMUM NEEDS AND PRESENT INCOMES

IN saying that economic reconstruction has become the only sound basis for social reform, I do not mean to imply that *nothing* more can be done by the transference of wealth from the economically comfortable to the economically uncomfortable.<sup>1</sup> How much can be done will be determined, as I have already explained, by the extent of the needs to be met and by the financial resources of those upon whom taxes or contributions can be levied to meet them. It is because I approach the whole question from that standpoint that I am less interested in a discussion of the small reforms which may still be possible by the old methods than in achieving the much larger and more difficult objective of a minimum income of necessities for all. If we can discover how this larger task can be accomplished, the smaller reforms, important as they are, will automatically have become more easily attainable.

It is first necessary to discover what is the minimum supply of necessities essential to physical welfare and to contrast this with the present incomes of the population. That contrast will provide us with a rough measure of the task with which society is confronted. A great deal of research has been made in recent years

<sup>1</sup> I keep defining the transference of wealth in cumbersome phraseology because, since the introduction of the contributory system, it is much wider than is covered by the old phrase "from the rich to the poor".

into the question of nutrition—by the British Medical Association, the Ministry of Health Advisory Committee on Nutrition, the Health Committee of the League of Nations, and by a number of private individuals with the highest qualifications for such work. Using the results of these recent studies in dietetics and food requirements and adding to them the results of his own investigations into family dependants and family budgets, Mr. B. Seeböhm Rowntree has provided, in his book *The Human Needs of Labour*,<sup>1</sup> an estimate of needs over a wider field, and an estimate of the minimum family income necessary to satisfy them.

Mr. Rowntree's conclusion that the average size of a family to be provided for is a man, his wife, and three children, and his estimate of the minimum requirements for such a family in terms of food, clothing, and shelter seem to me to be incontrovertible. If his dietetic chart is compared with the facts set out in Sir John Boyd Orr's survey<sup>2</sup> of *Food, Health, and Income*, it will be seen that Mr. Rowntree has really reduced his allowance to a minimum which leaves room for doubt as to whether it is in reality adequate for the maintenance of health and efficiency. Indeed, he warns the reader that even if existing incomes, in terms of food, were raised to this minimum, *one-third* of the children of the nation would still belong to families in which (because the number of dependent children is above the average) they would, for more than five years, be inadequately provided for. When it is remembered also that this country is facing the problem of declining population, and that the difficulty of providing for a family will certainly be an important

<sup>1</sup> *The Human Needs of Labour*. (Longmans, Green & Co., 1937.)

<sup>2</sup> *Food, Health, and Income*. (Macmillan & Co. Ltd., 1936.)



obstacle to any effort to reverse this tendency, it can be said with safety that Mr. Rowntree's minimum is by no means extravagant.

*Food.*—He adopts a standard of measurement of human nutritional requirements which is set out in the following table:

	Protein (Grains)*	Fuel Energy (Calories)
Men . . . . .	100	3400
Women . . . . .	83	2820
Children (under 14) . . . . .	65	2210

\* 28 grains = 1 ounce.

Half the protein should be first-class or animal protein. The diet must also contain an adequate quantity of protective foods.

He then proceeds to construct a sample dietary for such a family which would give the standard yield of calories, protein, mineral matter, and vitamins. In order that it may be clear to the reader that this is in fact as low a minimum as any civilised nation dare tolerate, and that no element of luxury enters into it, the chart is reproduced on page 41.

The cost of this dietary is 5s. 5d. per "man" per week, or 20s. 6d. per week for a family of man, wife, and three children. This is for urban districts. In rural areas the cost might be reduced to 18s. 6d. if a man grew his own vegetables.

*Housing.*—Mr. Rowntree then turns to housing.

The minimum housing requirements, which he arrives at on grounds both of health and decency, are a three-bedroom non-parlour type, having a combined floor-area of about 760 square feet and including a

small scullery, kitchen, and bath. The variation in rent for the same accommodation in different parts of the country is very great. Mr. Rowntree decided to allow 9s. 6d. in the town and 5s. 6d. in the country for rent and rates combined.

	BREAKFAST	DINNER	TEA	SUPPER
SUNDAY	Tea, bacon, bread and margarine (or fried bread)	Roast stuffed breast of mutton, boiled onions, potatoes, baked apples	Tea, bread and margarine, jam	Lentil soup and bread
MONDAY	Porridge and skimmed milk, bacon, bread and margarine (or fried bread), tea	Beef roll, mashed potatoes, and salad, steamed date pudding	Tea, bread and margarine, watercress	Lentil soup (remains) and bread
TUESDAY	Porridge and treacle, bread and margarine, tea	Liver and bacon, braised onions, potatoes (baked in jackets), chocolate custard	Beef roll (remains) and salad, bread and margarine, tea	Bread and cheese, cocoa
WEDNESDAY	Porridge and skimmed milk, bacon, bread and margarine (or fried bread), tea	Hot pot and swedes, baked milk (sago) pudding	Tea, bread and margarine, jam	Bread and cheese, cocoa
THURSDAY	Porridge and treacle, bread and dripping or margarine (or fried bread), tea	Sausages, mashed potatoes, and peas, baked apples	Fried herrings, bread and margarine, tea	Bread and cheese, cocoa
FRIDAY	Tea, bread and dripping or margarine (or fried bread)	Minced beef and rice, swedes, open jam tart	Bread and margarine, tea, jam	Bread and cheese, cocoa
SATURDAY	Tea, bacon, bread and margarine or dripping (or fried bread)	Barley broth, beef stew, potatoes, rice pudding	Kippers, bread and margarine	Bread and cheese, cocoa

The quantities and prices upon which this dietary is based are given in the Appendix.

*Clothing.*—For clothing he adopts the figure of 3s. per week for men, 1s. 9d. for women, and 1s. 1d. for children, or 8s. per week for the family of five persons. This might be reduced to 7s. for a family in the country.

*Fuel and Light.*—Here there is interchangeability between coal and gas for heating and gas and electricity

for light. The figure arrived at is 4s. 4d. town and 3s. 2d. country.

After making allowances for household sundries, 1s. 8d. (1s. 4d. country), and for personal sundries, 9s. (5s. 6d. country), Mr. Rowntree urges that "Trade Boards should be set up for all industries where adequate minimum wages are not already being paid, and instructed by statute to fix at the earliest possible date, for men of ordinary ability, minimum wages which would enable them to marry, live in a decent house, and bring up a family of normal size"—which he assumes to be a family of three dependent children—"in a state of physical efficiency, while allowing a reasonable margin for contingencies and recreation." "This, as we have seen, [he goes on] will probably mean not less than 53s. a week in towns—possibly something more in the largest cities, and about 41s. in the country at 1936 prices."<sup>1</sup> (The minimum arrived at for women who have not the same responsibility for dependants is 30s. 9d.)

Mr. Rowntree recognises that it would be impossible to establish these minimum rates at once in all trades, and therefore provides for a maximum "breathing-space" of five years, during which minimum incomes can be compulsorily raised to these levels. Having established not only the desirability, but the urgent necessity, of achieving this minimum of human needs below which no family would be allowed to fall, he leaves the subject with the remark: "Doubtless, sweeping changes must take place in many industries before they can conform to the new policy; but if it is inflexible, those changes will be made. Industry after all exists for citizenship, not citizenship for industry."<sup>2</sup>

<sup>1</sup> Page 130.

<sup>2</sup> Page 131.

It is at this point, where Mr. Rowntree leaves the subject, that we have to take it up. No one will suggest that his estimate of human needs is too high. Nor will anyone suppose that the minimum standards laid down can be achieved by any simple device, such as by merely ordering industry to pay these wages without raising prices, or by any extension of the existing fiscal methods of transferring wealth from the rich to the poor. Something can be achieved on these lines, but it would be ridiculous to ignore the fact that wages of agricultural workers cannot be raised by 25 per cent, or of town workers by, in many cases, an equal amount, without economic repercussions which might, if nothing else were done, actually increase the total volume of poverty rather than diminish it.

We shall, therefore, have to discuss at some length the "sweeping changes" to which Mr. Rowntree refers. For, to achieve even his minimum level of income, low as it is, requires a carefully planned economic policy which takes into account all the likely repercussions of each single step proposed. There is a suggestion of menace in my last quotation from Mr. Rowntree—"those changes will be made", even if industry is inflexible. I think he is right. It is the task of statesmanship to discover how this minimum of elementary requirements can be secured to every citizen. Our failure to achieve it by the exercise of intelligence would leave the nation open to the danger that attempts might be made to secure it by reference to the blind and disastrous arbitrament of force.

It is hardly necessary to submit elaborate proof that the incomes of a large proportion of our population fall considerably below the level of minimum human needs

as defined by Mr. Rowntree. The fact is already well known. It should be remembered, however, that the range of this insufficiency is not confined to those employments where the rates of wages are below 53s. in towns or 41s. in the country. The range is greatly widened when account is taken of periods of unemployment, and of loss of time through sickness or short-time working.

The difficulty of obtaining any precise information regarding wage rates is that most of the published figures refer either to *average* earnings or to *recognised* rates. The average earnings are of little use for our purpose for, in some of the cases where the average is higher than the suggested minimum, there will be included an unknown number of workers whose earnings are actually below the average. The same difficulty occurs to a lesser degree in regard to recognised rates. In some cases higher wages than the rate recognised by the Trades Unions and the Employers' Associations may, in fact, be paid. The rates vary, of course, for men, women, boys, and girls, and it would occupy too much space to concern ourselves with all these grades. In what follows, therefore, I shall be concerned particularly with the rates paid to men of 21 years and over.

First of all with regard to Average Weekly Earnings. There are a few employments only, out of a long list, in which the average falls below the 53s. stipulated by Mr. Rowntree. These are Stone Quarrying (51s. 3d.); Clay, Sand, Gravel, and Chalk Pits (52s. 7d.); three out of the four divisions given in the Cotton Spinning, Weaving, etc. (49s. 6d., 49s. 10d., and 49s. 4d.), the average for the whole of Cotton being 49s. 9d.; Flax and Hemp Spinning and Weaving (45s.); Jute Spinning and Weaving (48s. 10d.); some of the smaller Laundries

(47s.); firms employing less than ten workers in Grain Milling (48s. 10d.—the larger concerns pay 63s. 6d.).<sup>1</sup>

The list of *recognised* rates is given<sup>2</sup> only for certain industries and for the larger towns. In every case the higher skilled craftsmen are, of course, paid much more than the 53s. minimum we are discussing. It is mostly labourers and other unskilled or low-skilled workers who fall below that level. In these cases no figure of actual earnings can be quoted as they vary from one town to another. The employments in which the rates fall below 53s. are as follows:

Engine-shop labourers in the Engineering Industry.  
Labourers in the Shipbuilding and Repairing Industry in *some* parts of the country but not all.

Labourers in the Flour Milling industry in 5 out of the 27 towns for which particulars are given.

General assistants in the Printing and Bookbinding trade in 14 out of the 38 towns for which particulars are given.

Navvies and labourers in Civil Engineering Construction receive an hourly rate which in most of the towns will amount to less than our weekly minimum during the “winter” months, when only a 44½-hour week is worked.

Building trade labourers in most of the towns covered receive an hourly rate that would amount to less than the weekly minimum during the “winter” months, when only a 44-hour week is worked.

General yard labourers in Local Authority services in 25 towns out of the 40 for which particulars are given.  
Porters and goods porters in the Railway services.

The employments in which there is a high proportion of workers falling below the minimum are, of

<sup>1</sup> Twenty-Second Abstract of Labour Statistics, pp. 104-105.

<sup>2</sup> *Ibid.* pp. 72-77.

course, those covered by the Trade Boards Acts of 1909 and 1918. The Ministry of Labour Report for the year 1936 gives a list of the rates prevailing in those trades which come under the Trade Boards Acts. In 1936 there were 47 Trade Boards and 27 District Trade Committees operating under the Acts. The minimum rates given in this list range from 9½d. per hour at the lowest level to 1s. 4d. an hour at the highest level for male workers of 21 years of age and over; and from 5½d. per hour to 9½d. per hour for females of 18 and over—as at December 31st, 1936. For adult males there are in this list 18 rates of less than 1s. per hour, 8 rates of exactly 1s. per hour, and 69 rates ranging from 1s. to 1s. 4d. per hour. Twenty-five of the higher rates, however, are obtainable only on completion of a number of years'—varying from 2 to 8 years'—employment in the trade, or at an age level higher than 21. Unfortunately no information is given regarding the number of workers to whom these rates apply, but it is stated that there were 89,148 establishments on the Trade Board lists in 1936. Only 18,151 of these establishments were visited in 1936; this is less than one-quarter of the total, but some idea of the numbers of workers is to be gathered from the information that, of those establishments visited:

354 employed over 100 workers  
1758 employed from 21 to 100 workers  
3418 employed from 6 to 20 workers  
12,621 employed under 6 workers.<sup>1</sup>

<sup>1</sup> It is since the above was written that the Twenty-Second Abstract of Labour Statistics has been published giving a list of the employments covered by the Trade Boards Acts, and the table on page 47 is reproduced from that report.

# MINIMUM TIME RATES OF WAGES AT DECEMBER 31st, 1936, FIXED FOR ADULT WORKERS IN CERTAIN TRADES IN GREAT BRITAIN UNDER THE TRADE BOARDS ACTS, 1909 AND 1918

[The rates quoted apply to the lowest grades of experienced adult male and female workers. Except where otherwise indicated, the rates are operative at the age of 21 in the case of males and 18 in the case of females.]

Trade	General Minimum Hourly Time Rates		Weekly Hours of Labour in respect of which the Rates quoted are normally payable
	Males	Females	
Aerated waters (England and Wales)	s. d. 1 1	d. 7	48
Aerated waters (Scotland):			
Orkney and Shetland Islands	0 10½	5½	48
Rest of Scotland	0 11½	6½	48
Boot and floor polish	1 1½	7½	48
Boot and shoe repairing	1 2½	10½ (a)	48
Brush and broom	0 11	6½ (a)	48
Button manufacturing	1 1½	6½	48
Chain	1 1½ (b)	5½ (b)	..
Coffin furniture and casket making.			
Coffin furniture section	1 1½ (f)	8½ (a)	47
Casket-making section	..	7½ (c) (f)	47
Corset	1 1 (d)	7	48
Cotton waste reclamation:			
England and Wales	0 10½	6½	48
Scotland	0 10½	6	48
Cutlery	0 11	6 (a)	48
Dressmaking and women's light clothing (England and Wales):			
Retail bespoke dressmaking branch	1 0 (d)	6½, 7, 7½, (e) (f)	48
Other branches	1 0 (d)	7 (f)	48
Dressmaking and women's light clothing (Scotland):			
Retail branch	1 0 (d)	7, 7½ (e) (f)	46
Other branches	1 0 (d)	6½	46
Drift nets mending	..	6 (f)	44
Flax and hemp	0 10½	6	48
Fur	1 1	7½ (a)	48
Fustian cutting	0 10 (h)	5½	48
General waste materials reclamation	0 10½	6	48
Hair, bass, and fibre	0 10½	6½	48
Hat, cap, and millinery (England and Wales)	1 0 (d)	7 (f)	48
Hat, cap, and millinery (Scotland):			
Wholesale cloth hat and cap making branch	1 2 (d)	7½	46
Other branches	1 2 (d)	7, 7½ (e) (f)	46
Hollow-ware	0 11½	6½	47
Jute	0 9½	6	48
Keg and drum	1 0	7	47
Lace finishing	..	6½ (b)	..
Laundry:			
Cornwall and North of Scotland	1 1½	6½	48
Rest of Great Britain	1 1½	7	48
Linen and cotton handkerchief and house- hold goods and linen piece goods	0 11½	6½	48
Made-up textiles	0 9½	5½	48
Milk distributive:			
England and Wales	{ 0 10½ } (e) 1 1 1 2	6½, 7½, 8½ (a) (e)	48
Scotland	1 0½	6½ (a)	48

[For notes see end of Table on page 48.]



Minimum Time Rates—*continued*

Trade	General Minimum Hourly Time Rates		Weekly Hours of Labour in respect of which the Rates quoted are normally payable
	Males	Females	
	s. d.	d.	
Ostrich and fancy feather and artificial flower	1 0 (d)	7	48
Paper bag	1 1½	7½	48
Paper box	1 0½ (d)	7½	48
Perambulator and invalid carriage	0 11½	6½ (a)	48
Pin, hook and eye, and snap fastener	0 10½	6½ (a)	47
Ready-made and wholesale bespoke tailoring	0 11 (d)	7 (f)	48
Retail bespoke tailoring (England and Wales)	{ 1s. 4½d. to 1s. 11d. (e) (f) }	{ 7½d. to 10d. (e) (f) }	48
Retail bespoke tailoring (Scotland)	{ 1s. 1d. to 1s. 1d. (f) }	7, 7½ (e) (f)	48
Rope, twine, and net:			
Net section	0 10	6½	48
Other sections	0 10½	6½	48
Sack and bag	0 10½	6½	48
Shirtmaking	1 1 (d)	7 (f)	48
Stamped or pressed metal wares	0 11	6½	47
Sugar confectionery and food preserving	1 0 (c)	6½	48
Tin box	1 1	7½	48
Tobacco	1 3½	9½ (a)	48
Toy manufacturing	1 0½	6½ (a)	48
Wholesale mantle and costume	0 11½ (d)	7	48

NOTE — For the full details of the legally binding rates, together with any conditions and qualifications attached to them, reference should be made to the Minister of Labour's Confirming Orders, copies of which are on sale at H.M. Stationery Office.

- (a) At 21 years.  
 (b) The minimum rates in the chain and the lace finishing trades are not fixed by reference to sex. The rates shown are those applicable to work normally performed by men and by women respectively.  
 (c) At 24 years.  
 (d) At 22 years.  
 (e) Dependent on area as graded by the Trade Board.  
 (f) Payable after a specified period of employment in the trade.  
 (g) At 19 years.  
 (h) At 18 years.

(Twenty-Second Abstract of Labour Statistics (1922-36). Cmd. 5556)

With regard to other wage rates, an enquiry was instituted by the Ministry of Labour in October 1935 into the average weekly earnings and weekly hours of labour in manufacturing industries generally, and in some of the principal non-manufacturing industries, in Great Britain and Northern Ireland. Some of the results of this enquiry are published in the *Ministry of Labour Gazette* for February 1937 and May 1937. They show a wide variation of wage rates in the in-

dustries covered. The following table<sup>1</sup> gives the number of industries, or sections of industries, in each group and the highest and the lowest average wage quoted for each industry or section within the group.

Industry	Total Number of Workpeople covered by Returns received (including youths and boys and girls)	Average Weekly Earnings of all Workpeople covered (including youths and boys and girls)	Men (21 years and over)		Women (18 years and over)	
			Highest	Lowest	Highest	Lowest
Textile industry	923,674	s. d. 36 4*	s. d. 72 3	s. d. 45 0	s. d. 36 9	s. d. 23 6
Clothing industry	471,100	35 0*	87 10	47 0	48 6	23 2
Treatment of non-metalliferous mine and quarry products	50,925	56 8*	65 11	57 7	31 4	20 0
Brick, pottery, glass, chemical, etc., industries.	318,356	48 2*	78 11	56 11	36 0	24 11
Woodworking industries	191,979	51 2*	74 11	49 8	36 0	23 8
Other manufacturing industries, etc.	138,065	43 11*	89 9	54 6	35 0	25 5
Building	387,985	56 11*	73 6	56 6	37 9	28 6
Mining and quarrying other than coal	65,981	50 6*	64 1	45 1	30 9	25 3
Transport and storage	231,622	65 6*	76 1	55 11	48 6	24 3
Public utility services.	450,835	55 6*	68 7	53 2	28 7	21 10
Government industrial establishments.	101,676	66 2*	69 9	69 9	38 10	38 10
			average		average	

\* The figures in this column produce a lower average because they include the average earnings of youths and boys under 21 and girls under 18.

It must be remembered that *average* wage rates tend to conceal the particular information we want to obtain, but I do not wish to distort the picture by selecting certain wage rates and excluding others. Moreover, it is to be remembered that minimum wage legislation as suggested by Mr. Rowntree would probably tend to force up the level of wages that

<sup>1</sup> Some of the information given earlier in this chapter covers the same employments, but I have allowed this table to stand as it gives a wider picture of average earnings in the different age-groups. Its value is diminished by the fact that the rates given are *average rates*.

are already above the minimum he suggests. It is for these reasons that I wish to include here a summary for the Coal Mining Industry and a General Summary<sup>1</sup> of the investigation made by the Ministry of Labour into the whole subject.

### “COAL MINING

“For the coal mining industry, statistical summaries are published by the Mines Department, at quarterly intervals, showing the average earnings per man-shift worked of all classes of workers in coal mines, based partly on returns made by collieries for the purpose of wage ascertainment in certain districts, and partly on other returns supplied by individual colliery owners. In the four quarters of 1935 the average earnings per shift, and the average weekly number of shifts worked by the workpeople employed, were as shown below:

Period	Average Cash Earnings per Man-shift worked	Average Value of Allowances in Kind, per Man-shift worked	Average Number of Man-shifts per Person worked per Week
1935:	s. d.	d.	
First quarter . . .	9 2.66	4.65	4.97
Second quarter . . .	9 2.85	4.47	4.72
Third quarter . . .	9 3.15	4.34	4.72
Fourth quarter . . .	9 3.91	4.57	5.25

“On the basis of the average number of man-shifts worked, the average cash earnings for the fourth quarter of 1935 were equivalent to approximately 49s. a week, and the average value of allowances in kind was approximately 2s. a week. The average weekly number of man-shifts worked during that quarter was  $5\frac{1}{4}$ , and about one-third of a shift was lost from causes other than stoppages at the pits. In

<sup>1</sup> *Ministry of Labour Gazette*, July 1937.

addition, time was lost as a result of pit stoppages due to want of trade, trade disputes, holidays, etc.

“Since 1935, there has been a considerable increase in average earnings in the coal mining industry. In the first quarter of 1937, the latest quarter for which particulars are at present available, the average cash earnings per man-shift worked were 10s. 4·18d., and the average value of allowances in kind was 4·95d. The average weekly number of man-shifts worked during that quarter was 5·17.

#### “GENERAL SUMMARY

“*Weekly Earnings.*—Particulars of the average weekly earnings of the workpeople covered by the returns received as a result of the enquiries made by the Department relating to October 1935, have been published, for each of 230 industries, together with combined figures for each of 15 main groups of industries, in the issues of this *Gazette* for February to May 1937. The average weekly earnings shown for all workpeople, and for men (21 years and over), youths and boys, women (18 years and over) and girls in each of these 15 main groups are reproduced below, together with general averages for all the workpeople in respect of whom returns were received. [*See page 52.*]

“The figures given show the average earnings of the workpeople for whom particulars were furnished in the returns received. These general averages, however, are affected by the fact that some industries are less completely represented, in the returns received, than other industries. When the average earnings, for all the above industries combined, are re-calculated on the basis of the total numbers employed in the individual industries, the averages for men, youths and boys, women and girls, respectively, remain substantially unaltered, the effect being to raise or lower the average earnings shown above by only 1d. or 2d. a week. Owing, however, to the under-representation,

in the returns received, of the building industry and certain other industries in which men are largely employed, and to the relative over-weighting of the textile industries and certain other industries in which women and girls form a high proportion of the total number of operatives, the average of 48s. 11d. shown for all

Industry Group	Total Number of Work-people covered by Returns received	Average Earnings in the Week ended 12th October 1935, of the Workpeople covered by the Returns				
		All Work-people covered	Men (21 Years and Over)	Youths and Boys (Under 21 Years)	Women (18 Years and Over)	Girls (Under 18 Years)
		s. d.	s. d.	s. d.	s. d.	s. d.
Mining and quarrying (other than coal mining)	65,981	50 6	53 4	26 6	29 7	17 11
Treatment of non-metalliferous mine and quarry products	50,925	56 8	60 8	28 3	29 1	17 3
Brick, pottery, glass, chemical, etc.	318,356	48 2	63 0	24 5	29 5	15 4
Metal engineering, ship-building, etc.	1,478,212	53 2	67 7	22 3	31 1	17 3
Textiles	923,674	36 4	55 11	23 1	30 3	17 2
Leather	41,551	44 9	61 9	22 9	29 6	15 4
Clothing	471,100	35 0	64 6	22 5	32 8	15 0
Food, drink and tobacco.	363,119	44 10	63 8	24 11	32 1	17 0
Woodworking	191,979	51 2	65 1	21 11	33 10	15 7
Paper, printing, stationery, etc.	292,649	55 5	83 8	22 11	33 5	15 6
Building, contracting, etc.	387,985	56 11	61 2	21 9	30 2	16 6
Other manufacturing industries	138,065	43 11	64 11	25 1	30 1	16 3
Transport and storage (other than railways)	231,622	65 6	69 1	25 3	32 4	16 7
Public utility services	450,835	55 6	57 10	25 8	28 2	15 5
Government industrial establishments	101,676	66 2	69 9	20 11	38 10	19 3
ALL ABOVE INDUSTRIES	5,507,729	48 11	64 6	23 0	31 3	16 4

workers appears to be appreciably below the actual average earnings of all workpeople employed in these industries. If the averages for the individual industries covered by the enquiry were combined on the basis of the total numbers actually employed in each industry, the weekly earnings of all wage-earners in these industries, at October 1935, would average approximately 49s. 6d. a week; the inclusion of coal

mining and railway service would raise this figure to about 50s. a week.<sup>1</sup> It should be observed that owing to the rise in the average level of rates of wages and to the general improvement in employment, since October 1935, average earnings in many of the industries covered by these statistics will now be appreciably higher than at that date.

*"Hours of Labour.*—The following Table shows, for each of the main industry groups, the proportions of workpeople, covered by the returns received, whose normal weekly hours, exclusive of recognised intervals for meals, fell within certain specified limits, together with the average normal hours, and the average actual working hours in the specified week inclusive of short-time and overtime. Separate particulars for the individual industries included within these main groups have been published in the issues of this *Gazette* for February to May 1937. It should be observed that in the great majority of the returns the particulars relating to operatives working less than the full week included only those workers who were on short-time as a result of arrangements made by the employers, and excluded any loss of time by individual workers due to voluntary absence from work, sickness, bad time-keeping, etc. If full account had been taken of absences from work from all these causes, the figures relating to hours actually worked would usually have been somewhat less than those shown in the Table. [*See page 54.*]

"The figures given in the last line of this Table are to some extent affected by the variations in the proportions of returns received from different industries, referred to above. When the figures for the individual industries are combined on the basis of the total numbers of workpeople employed at October 1935, it is estimated

<sup>1</sup> These averages do not cover agricultural workers, domestic servants, and workers employed in the catering, entertainment, and certain other industries for which particulars of weekly earnings at October 1935 are not available.

that for rather more than 12 per cent of all the workpeople in these industries the normal working week was 44 hours or less, for approximately 10 per cent it was over 44 but under 47 hours, for over 67 per cent it was 47 to 48 hours, and for between 10 and 11 per

Industry Group	Proportions of Workpeople whose Normal Weekly Hours* were:				Average Normal Hours*	Average Actual Working Hours* for all Workpeople, in the Week ended 12th Oct. 1935
	44 or less	Over 44 and under 47	47 to 48	Over 48		
	Per cent	Per cent	Per cent	Per cent		
Mining and quarrying (other than coal mining)	20.1	16.0	39.3	15.6	46.4	45.7
Treatment of non-metallic products	11.2	10.2	47.2	31.4	48.6	49.6
Brick, pottery, glass, chemical, etc.	14.3	7.7	65.4	12.6	47.2	48.0
Metal, engineering, ship-building, etc.	6.9	5.7	83.0	4.4	46.8	48.2
Textile	4.0	4.2	85.2	6.6	47.8	47.7
Leather	3.4	3.5	83.1	10.0	47.8	48.8
Clothing	13.8	16.4	66.3	3.5	47.0	45.4
Food, drink, and tobacco	12.4	8.6	65.5	13.5	47.7	48.5
Woodworking	18.7	15.1	51.4	14.8	46.9	48.3
Paper, printing, stationery, etc.	9.9	7.5	78.7	3.9	47.3	48.6
Building, contracting, etc.	35.9	20.8	9.5	24.8	46.8	46.9
Other manufacturing industries	9.7	12.4	67.3	10.6	47.2	48.2
Transport and storage (other than railways)	7.4	2.5	70.3	10.8	47.9	48.6
Public utility services	8.2	4.8	72.9	14.1	47.3	48.0
Government industrial establishments	3.0	0.2	96.8	..	47.3	49.7
ALL ABOVE INDUSTRIES	10.6	8.7	71.7	9.0	47.2	47.8

\* Excluding mealtimes, except in the case of those shift-workers for whom no definite interval for meals was recognised.

cent it was more than 48 hours. These adjustments, however, do not materially affect the figures relating to the average normal hours and the average actual working hours of all the workpeople covered by the enquiry."

It is well known that agricultural wages fall below the 41s. country minimum suggested by Mr. Rowntree.

The minimum weekly rates of wages for ordinary adult male workers, as laid down under the Agricultural Wages (Regulation) Act, 1924, as at 1st July 1937 varied from 30s. in Merioneth and Montgomery to 38s. 6d. in some parts of Lancashire. The full table of agricultural wages is given below. It should be remembered, of course, that these are minimum wage rates only. I have no information as to the wages actually paid. It should also be remembered that considerably higher minimum rates are fixed for cowmen, shepherds, and other more skilled agricultural workers.

### AGRICULTURAL WAGES (REGULATION) ACT, 1924

#### MINIMUM WEEKLY RATES OF WAGES FOR ORDINARY ADULT MALE WORKERS AS AT 1ST JULY 1937\*

Committee Area	Present Rates			
	Wages	Hours		
		Summer	Winter	
	s. d.			
Beds. and Hunts. . . . .	32 6	50	..	
Berkshire . . . . .	32 0	50	50	
Buckinghamshire . . . . .	33 0	50	48	
Cambs. and Isle of Ely . . . . .	32 6	50	48	
Cheshire . . . . .	34 0	54	54	
Cornwall . . . . .	33 0	51	51	
Cumberland and Westmorland . . . . .	34 6	54	..	
	33 0	..	48	
Derbyshire . . . . .	8½d. per hour	54	54	
		(Guaranteed)		
Devonshire . . . . .	34 0	52	50	
Dorset . . . . .	33 0	51	48	
Durham . . . . .	32 0	50	50	
Essex . . . . .	32 6	50	48	
Gloucestershire . . . . .	32 0	50	..	
Hants. and Isle of Wight . . . . .	32 0	51	48	
Herefordshire . . . . .	32 6	54	48	
Hertfordshire . . . . .	34 0	48	48	
Kent . . . . .	34 0	52	48	
Lancashire (S. Area) . . . . .	34 6	50	50	
„ (Rest of County) . . . . .	38 6	60	60	
Leicestershire . . . . .	34 0	54	54	

\* Ministry of Agriculture and Fisheries, July 1st, 1937.



Agricultural Wages—*continued*

Committee Area	Present Rates			
	Wages	Hours		
		Summer	Winter	
	s. d.			
Lincolnshire (Holland)	36 0	50	..	
„ (Kesteven and Lindsey)	33 0	50	48	
Middlesex	36 5½	50	..	
	35 0	..	48	
Monmouthshire	32 6	54	..	
Norfolk	33 6	50	48	
Northants. and Soke of Peterborough	32 6	50	..	
Northumberland	32 6	52½	48	
Nottinghamshire	32 0	50	50	
Oxfordshire	32 6	50	..	
Rutland	32 6	54	50	
Shropshire	34 0	54	54	
Somerset	34 0	52	50	
Staffordshire	34 0	54	54	
Suffolk	31 6	50	..	
Surrey	33 4	50	50	
Sussex	32 6	52	..	
„, from 12.7.37	33 3	52	48	
Warwickshire	32 0	50	48	
Wiltshire	32 6	50	50	
Worcestershire	31 0	52	48	
Yorkshire (E. Riding)	34 6	52½	48	
„ (N. Riding)	34 0	52½	50	
„ (W. Riding)	35 6	52½	48	
Anglesey and Caernarvon	31 0	50	50	
Cardiff	32 0	54	54	
Denbigh and Flint	31 0	50	48	
Glamorgan	34 6	52	48	
Merioneth and Montgomery	30 0	54	54	
Pembroke and Cardigan	31 0	54	52	
Radnor and Brecon	32 0	54	50	

The above tables have been constructed to convey a rough idea of the range of wage rates prevailing in industry and agriculture. But it is very dangerous for the inexpert observer to attempt to reach any general conclusion from such figures. We shall turn, therefore, to the observations made on the subject of income distribution by those who are more qualified to provide us with a reliable picture of the present income condition of our population.

In his book *National Income and Outlay*, Mr. Colin Clark makes a calculation of the income distribution of personal incomes in which it is shown that the number of incomes of under £125 per annum (*i.e.* 48s. per week) is 11,800,000.<sup>1</sup>

The table is as follows:

INCOME DISTRIBUTION OF PERSONAL INCOMES, 1929

	Numbers (000's)	Income (£ million)
Over £10,000 .	10	228
£2000-£10,000 .	100	388
£1000-£2000 .	195	235
£500-£1000 .	481	309
£250-£500 .	1,249	402
£125-£250 .	5,827	1009
Under £125 .	11,800	1170
Total .	19,662	3741

“The numbers include persons in receipt of unearned incomes above £125. Below this level, unearned income is included in the income aggregates, but persons receiving it are not included in the number of income-earners, and the classification of the numbers of income earners at £125 and £250 is based on the distribution of earned income only. Income from Unemployment Benefit and Old Age Pensions is not included, nor is direct taxation deducted. It is assumed that the income evading tax is distributed between the various classes in the same proportions as is the income paying tax.”<sup>2</sup>

As a result of further examination it appears “that the income distribution figures for 1929 are prob-

<sup>1</sup> The figures in the table evidently include all wage-earners, whether men, women, boys, or girls, since the total given in his table approximates to the total number of persons gainfully occupied according to the 1931 census.

<sup>2</sup> *National Income and Outlay*, pp. 109-110, by Colin Clark. (Macmillan & Co., Ltd.)

ably fairly closely applicable to 1935 conditions. The deviation will probably be in the direction of a slightly greater inequality of income in 1935."

G. D. H. and Margaret Cole quote another calculation of Mr. Clark's—in their book *The Condition of Britain*—although no reference is given as to where this estimate appears. They state that Mr. Colin Clark has estimated broadly that in 1935 the distribution of actual earnings among *adult men*, excluding the unemployed, was—

#### EARNINGS OF ADULT MEN (1935)<sup>1</sup>

	Percentage of Total Adult Male Workers
35s. or less per week . . .	5
35s. to 45s. per week . . .	18
45s. to 55s. per week . . .	24
55s. to 65s. per week . . .	27
65s. to 75s. per week . . .	21
75s. to 85s. per week . . .	5

Mr. and Mrs. Cole point out that

"These wages, of course, are not distributed with any regard to the number of persons who have to be supported out of them. Nor does each wage necessarily have to bear the entire burden of supporting a household.<sup>2</sup> Of all the households in the country about half have only *one* earning member, about a quarter *two* earners, about one-eighth *three* earners, and the remaining eighth *four*, or more. But those estimates of earnings given above include under-employed persons."

These statistics are not presented in an altogether satisfactory form, but they are, perhaps, sufficient to

<sup>1</sup> *The Condition of Britain*, by G. D. H. and M. I. Cole. (Victor Gollancz Ltd., 1937.)

<sup>2</sup> It should be noted that this table is an estimate of earnings, not of wage *rates*.

provide the reader who is not able to consult the official publications for himself with a general picture of the wage situation. In any case, it is not necessary for us to rely on wage rates alone to obtain some idea of the conditions of life that the people of this country enjoy or endure. We can check our impressions against the results of investigations that have recently been made regarding the standards of nutrition in different classes of the population.

It will be remembered that the cost of the dietary put forward by Mr. Rowntree as a minimum amounted to 5s. 5d. per man per week at the prices which ruled at the end of 1936, or 20s. 6d. for a family of man, wife, and three children. It is interesting to compare the results of Mr. Rowntree's search for a minimum with the results of the research done by the Rowett Institute, in co-operation with the staff of the Market Supply Committee, published by Sir John Boyd Orr in 1936.<sup>1</sup> In this case "instead of discussing minimum requirements, about which there has been so much controversy, this survey considers optimum requirements". Optimum requirements are based on the physiological ideal, which is defined as "a state of well-being such that no improvement can be effected by a change in the diet". The standard of adequacy adopted is one which will maintain this standard of "perfect nutrition".

It was found that of an estimated national income of £3750 million, about £1075 million are spent on food. This is equivalent to 9s. per head per week. The broad result of the investigation is summed up in the following table.

<sup>1</sup> *Food, Health, and Income*, by Sir John Boyd Orr. (Macmillan & Co. Ltd., 1936.)

# CLASSIFICATION OF THE POPULATION BY INCOME GROUPS AND AVERAGE FOOD EXPENDITURE PER HEAD IN EACH GROUP

Group	Income per Head per Week	Estimated Average Expenditure on Food	Estimated Population of Group	
			Numbers	Percentage
I	Up to 10s.	4s.	4,500,000	10
II	10s. to 15s.	6s.	9,000,000	20
III	15s. to 20s.	8s.	9,000,000	20
IV	20s. to 30s.	10s.	9,000,000	20
V	30s. to 45s.	12s.	9,000,000	20
VI	Over 45s.	14s.	4,500,000	10

Here also the figure given for income per head is the income of the family divided by the number of persons supported.

“Thus, a man and wife with £2 : 10s. a week with no children or dependants would fall into Group IV; with one child into Group III; with two or three children into Group II, and with four or more children into Group I. The poorest 10 per cent of the population consist in the main of families in which there is a disproportionate number of children or other dependants per earner. It is estimated that half the persons in Group I are children under 14 and that between 20 and 25 per cent of the children in the country are in the lowest income group.”

“Included in the table is a column showing average food expenditure per head per week. It is obvious, of course, that as income falls the percentage spent on food, which is a prime necessity of life, will increase. The average expenditure on food represents a proportion rising from below 20 per cent in Group VI to nearly 50 per cent in Groups I, II, and III. Among the poorest some observers have found expenditure on food exceeding 70 per cent of total income, but food prices were then higher than they have been in the past few years. A study of family budgets in a number

of countries shows that food accounts on the average for between 45 and 60 per cent of the total expenditure of working-class families."

An examination of the composition of the diets of the different groups shows that the degree of adequacy for health increases as income rises.

"The average diet of the poorest group, comprising  $4\frac{1}{2}$  million people, is, by the standard adopted, deficient in every constituent examined. The second group, comprising 9 million people, is adequate in protein, fat, and carbohydrates, but deficient in all the vitamins and minerals considered. The third group, comprising another 9 million, is deficient in several of the important vitamins and minerals. Complete adequacy is almost reached in Group IV, and in the still wealthier groups the diet has a surplus of all constituents considered."<sup>1</sup>

In arriving at his minimum of 5s. 5d., Mr. Rowntree assumed that bread is baked at home. If bought it would add between 1s. and 2s. to the food costs of his family of 5 persons. If we abandon this assumption (which is admittedly out of harmony with the customs of the majority of people today) and compare his minimum, increased by an appropriate amount, with the results of Sir John Boyd Orr's investigation, it would appear that about  $13\frac{1}{2}$  million persons or 30 per cent of our population either just reach or fall considerably below the minimum dietary which Mr. Rowntree advances. The "tentative" conclusion reached by Sir John Boyd Orr is that 50 per cent of the population of Britain do not receive sufficient income to enable them to obtain a diet "completely adequate for health".

These broad conclusions, reached by different re-

<sup>1</sup> Page 49.

search workers adopting different methods of investigation, leave no room for doubt that, as regards a large proportion of the population, society is still failing in its elementary task of so utilising the labour of its citizens and the resources of science and industrial technique as to provide at least a bare minimum of human needs. The investigations necessarily deal with the actual conditions which are encountered. But if we are to estimate the magnitude of the problem from the point of view of health, account should also be taken of the *fear* of poverty as well as the actual poverty prevailing at any given time. Insecurity of employment and of income and the anxiety to which it gives rise have an adverse effect on health almost equal to the actual endurance of poverty.

Workers who while in employment are receiving wages above the minimum datum line can very easily be brought below that line by intermittent spells of unemployment. The importance of this point, and of the widespread incidence of unemployment, was revealed in the Final Report of the Royal Commission on Unemployment Insurance published in 1932. Dealing with the eleven-year period 1921 to 1931, the Commission pointed out that unemployment in the insured occupations had varied between 8·6 per cent and 22·4 per cent. The period under consideration included therefore years of relative prosperity as well as years of acute depression. On page 78 of the report the statement is made that "*The risk of unemployment is widespread, 60 per cent of the insured population having experienced some unemployment in the last eleven years*".

But this insecurity is not confined to the class whose low wages keep them always either in poverty or within sight of it. It is a disease that afflicts nine-

tenths of the population. Many of those who belong to the insurance class have at least the sombre comfort that, their incomes being already so low, the drop to the level of insurance benefit or public assistance is not very great. Indeed it might almost be said that the anxiety of insecurity is increased as the wage level rises. In the higher-wage groups the way of living is improved—and rightly so. The cost of maintaining this way of living—a better house perhaps, better feeding and clothing, and enjoyment of the cheaper amenities of life—raises the better-paid worker to a more tolerable standard; but because it is more tolerable it is more precarious. Even its basis cannot be maintained on an insurance benefit income.

Then there is the lower middle-class group who earn more than £250 per annum and therefore are excluded from the insurance scheme. The number of persons enjoying these higher incomes is relatively small. There are over two million persons receiving incomes above the unemployment insurance limit. One and a quarter million of them fall into the category ranging from £250 to £500 per annum. Another half a million receive from £500 to £1000 per annum. Persons earning over the insurance limit up to £500 per annum certainly enjoy a higher material standard of life. The incidence of unemployment is not so great. But the insecurity which undoubtedly exists causes them to endure a considerable anxiety. They have become accustomed to a relatively comfortable standard of life. They are completely outside and beyond the provisions of the system of social services on which the wage-earner is able to rely. If a wife and family have to be supported out of an income up to £500 a year or even more, there is little room either for luxury or any important



margin of saving. It is an income which permits life to be lived on a plane of civilised decency but it is not much more than that. Sympathy and consideration is seldom extended to this class. They are regarded as fortunate; and, indeed, they are, compared with the majority of citizens. But are they so fortunate that they should be excluded from the social provisions against misfortune?

When we come to the higher income group, from £500 to £1000, there is nominally a larger margin for saving and the sense of security is very greatly increased. Probably the principal burden of this class is that of education. While the present education system remains, it is natural that they should try to give their children the kind of education which enhances their prospects of success in after life. It is unfortunately still true that in present conditions this still means a "public" school. The cost of sending, say, two children to a good public school eats up the whole margin of comfort and security that might have been derived from this higher income. A man earning up to £1000 a year with two boys at a public school will be spending a very high proportion of his income on education alone. It is hardly to be wondered at that it is in these families that we find a tremendous fall in the birth-rate.

It is possible to conceive of an educational system which would not only relieve this class of such a heavy burden, with beneficial reactions on the birth-rate, but would give us at the same time better education and less class antagonism. In so far as snobbery and class alienation exists in this country, it is largely a product of class differences in education. The public mind is probably not yet ready for the obvious remedy. It

would do nothing but good to the children of every class if the early years of life were spent in the same school. Even when some children went to higher education and others directly into manual or clerical employment, the early association would not be forgotten. The class differences which now tend to go according to incomes might in future be replaced by the natural functional and intellectual differences, but these would be superimposed upon a common training by which mutual understanding could be preserved.

This comment on education has been made merely to show how the insecurity of middle-class life might be reduced while at the same time achieving for the nation a reform which is in itself worth while. But I am not very hopeful that action on such lines will be politically possible for some time to come. The point I am really making is that insecurity of income spreads anxiety and hardship over a much wider field than that which we have so far been discussing, and that, while the number of people enjoying incomes above the level of the insurance class is relatively small, their difficulties must not be lost sight of. Any action we can propose, therefore, which would have the effect of maintaining business activity and employment at a high and stable level would serve the interests of every class in society. While we are concentrating our efforts upon a basic minimum standard of life for the poorest workers, it should be remembered that any policy which enables us to achieve and maintain such a standard is bound to bring substantial benefits to every other class in the community.

## CHAPTER V

### PRESENT METHODS OF DISTRIBUTION

THE foregoing brief survey of the research work of others into the question of malnutrition and the present conditions of life in Britain has provided us with a rough measurement of the basic social problem with which we have to deal. It is the background from which we have to approach the economic and social questions of our time. It is a state of affairs tolerable by necessity in an age of scarcity, but quite intolerable, indeed shameful, with all the resources at our disposal today. It is the justification for bold proposals of a novel kind.

A large proportion of our population is living in conditions of poverty. Their incomes are not sufficient to enable them to buy the elementary necessities of life. A still larger proportion, including the great majority of the people, suffer the anxieties of insecurity. I am not forgetting that conditions today are not worse than they were before but, definitely better. The standard of life is generally higher, the system of social services is more humane and more efficient than in any other country or at any earlier time. But there is a legitimate claim that standards which were endurable in an age of scarcity are unendurable when we have at our disposal a potential volume of production quite adequate to remove the old restrictions of scarcity.

The urgent need is undoubtedly that we should find a means by which the incomes of the population may

be raised as soon as possible to a level which represents at least the minimum standard of nutrition, of clothing, and of shelter necessary for the maintenance of physical efficiency and health. If we could solve the problems involved in that achievement, we should also have discovered the means whereby the standard of life could be progressively raised to the higher or optimum standard, as the productivity of labour increased. Yet it would be of little value if, as a result of adopting short-sighted methods, we found that, while these higher incomes might be maintained in a boom period of prosperity, they were subject to the same fluctuations of a merciless trade cycle as the incomes of the great majority of our people are today.

It may be beyond the range of our present economic and political wisdom entirely to overcome the trade cycle and to introduce complete order and stability into the economic system. It is not inconceivable, however, that we might be able to stabilise, and guarantee regularity of income, up to the minimum standards. The fluctuations of the trade cycle would not be so serious to human welfare if they could be confined, as it were, to the higher realms of economic activity; to the superstructure above and beyond the supply of the essential means of life. But fluctuations of boom and slump, of prosperity and depression, which involved the minimum standards we had tried to build up would mean that the results of our efforts were mere figments; delusive unrealities to be swept away by the first cold winds of trade recession.

It is obvious that, if there is to be any reality in our plans, the minimum standards must be permanent; and this requires that the economic system must be so adjusted as not only to produce a higher minimum of

comfort, but to ensure that the necessary goods and services will continue without fail to be supplied. Mr. Rowntree concluded his book with the suggestion that statutory minimum wages should be established in all employments and that within a period of five years the minimum incomes necessary for the purchase of his "minimum human needs" should universally obtain. I believe that such a system of minimum wages will prove a necessary part of a policy adequate for our purpose, but I do not believe that it is in itself an adequate policy. Our problem cannot be solved by merely ordering employers to pay the minimum money wages set out in the Rowntree scale and then leaving wages to chase rising prices.

Mr. Rowntree anticipates, of course, that the higher wages would be paid out of the savings of more efficient and more economical methods of production and distribution; that in fact wages costs could be increased without increasing total costs—and therefore prices. If this did happen, then we should have a much greater output of goods with the same amount of labour, and the theory is, no doubt, that the increased wages of the workers would enable the greater output to be sold on the market. But can we be sure that this is what would actually happen? The possible savings of efficiency are not equal in all industries. The reorganisation necessary to increase efficiency might fail to be carried out, either because of slackness on the part of owners or because of the division of the industry into small-scale competing units incapable of effective co-operation. But even if these difficulties were overcome the market for the products of a particular trade might not expand. Demand is not equally elastic in all industries. If the increased output could not be disposed of, then the

more efficient methods—which must mean, in the last analysis, an economy of labour—would result in the displacement of workers. Could we be sure that this displaced labour would be utilised in other employment or would we merely be spending part of the savings of efficiency on the maintenance of idle labour?

In so far as the displaced labour was not employed elsewhere, there would be no addition to the total national wealth. We should be producing the same amount of goods and services with a smaller number of workers. The higher standard of life for workers in employment—still assuming that prices remained constant—would be paid for out of the lower standard of life of those who lost their employment. Another doubtful factor in such a policy (if nothing else were done) would be the position of our export trades. If the pressure of present competition in overseas markets has not resulted in the highest possible degree of productive efficiency in the export trade, would that efficiency be induced by more pressure at the cost-of-production end?

I am not trying to prove that the policy of minimum wages is impossible. On the contrary, I believe it to be essential, but it is not an adequate policy in itself. It must be accompanied by other measures to ensure that, at the same time as we create new problems for those responsible for the conduct of industry, we shall provide the channels through which a solution of those problems is made possible. The significance of this point will emerge more clearly later on, when we come to an examination of the actual problems of industrial reconstruction. Proposals will then be advanced by which the difficulties I have referred to might be overcome.

Meantime, as a first step towards a greater clarification of the problem, it will be worth our while to examine more closely the different items entering into the family budget. Having obtained some information regarding the quantities of products at present bought and consumed, we can then work forward to a consideration of how they are distributed and of the other factors entering into the determination of their price. If it is agreed that any improvement in the standard of life of the people will depend upon an improvement in the social efficiency of production and distribution, then we may reasonably start at the point where the consumer comes into contact with the products he requires.

It is useful and necessary to have a measurement of minimum human needs in terms of a money wage; in terms, therefore, which bulk together the whole of the items of goods and services necessary to the satisfaction of those needs. This simplifies the task of analysis, but it does not solve the problem of how an adequate supply of these goods and services is to be provided. The items entering into the minimum family budget differ very much in a number of ways. The system of production and distribution and the methods of purchase which may be appropriate for some items may not be so suitable for others. We must begin by examining the different items in the budget of human needs, with a view to sorting them into categories to which different methods of treatment might be applied.

The first aspect we should consider is the range of consumers' choice. By consumers' choice I do not mean such variations of choice as occur because of the necessity to purchase an article of inferior quality. It is not the consumer who chooses inferior quality; such a choice

is forced upon him by poverty. What I do mean is the difference between articles in which there is comparatively little range of consumers' choice arising from variation of taste or changes of fashion, and goods in which the choice is wide because of preferential differences of this kind. For those goods with regard to which there is little or no consumers' choice there are greater possibilities of standardised production, highly efficient, and therefore cheap, distribution, and greater economies to be obtained from a regular, stable market. For our purpose the existence of a stable market is important. It is so, not only in order to provide the basis for a highly efficient system of production and distribution, but, as we shall argue later on, to assist us in the wider tasks of economic planning to modify or eliminate the trade cycle.

Let us try then to list those articles in which there is little or no consumers' choice, and of which the great majority of consumers are likely to require regular supplies. Here we can get some guidance as far as foodstuffs are concerned from the charts compiled by Sir John Boyd Orr showing the estimated consumption of certain foodstuffs per head in 1934, in the six income-groups as set out in the table on page 60.

The consumption of *fresh milk* varied from as low as 1 pint per head per week in Group I to 5 pints per head per week in Group VI. But it is generally agreed that this is a food of such vital importance to health that an increase in the consumption must be obtained either by lowering the price or increasing in some other way the consumers' power to buy it. Condensed milk on the other hand averaged 0·7 pints in the lower income Group I and fell to 0·3 pints in the higher income Group VI. The desirable social policy is, of course, to increase the



consumption of fresh milk, and this would no doubt mean a reduction of the consumption of condensed milk in the lower income groups.

Butter consumption averaged only 3 ounces per head per week in Group I, rose sharply to over 6 ounces in Group II, and to about 10 ounces in Group VI. Margarine showed, of course, the opposite trend, being  $4\frac{1}{2}$  ounces per head per week in Group I and falling to 1 ounce in Group VI.

Meat consumption showed a wide variation. It was 22 ounces in Group I and rose to over 45 ounces in Group VI.

In fish consumption there was the same irregularity,  $2\frac{1}{2}$  ounces in Group I and over 13 ounces in Group VI.

Cheese consumption was remarkably regular, however, varying only from 2 ounces in Group I to  $3\frac{1}{2}$  ounces in Groups IV and V, and falling again to under 3 ounces in Group VI.

Egg consumption rose from  $1\frac{1}{2}$  per head per week in Group I to above 4 per head per week in Group VI.

Bread and flour consumption showed a remarkable stability, being practically the same for all the groups at from 60 to 66 ounces.

Potatoes showed the same stability, being round about 56 ounces for each group.

Sugar varied only from about 14 ounces in Group I to about 20 ounces for Groups III, IV, V, and VI.

Fruit, and vegetables other than potatoes, showed very wide divergence, rising steeply from a very low level in Group I to a very high one in Group VI.

There is evidence of a remarkable stability of demand in all income groups for some of these commodities. This stability is pronounced in those items which might be called the most fundamental essentials, such as milk (taking fresh and condensed milk consumption

together), butter and margarine taken together (for the high consumption of margarine in the poorest group is not a reflection of taste but of poverty), cheese, bread and flour, potatoes, and sugar. These commodities are of a nature to lend themselves to highly organised marketing; they are convenient to handle in bulk, they are basic essentials with little or no range of real consumers' choice, and they are purchased in quantities which do not vary greatly in all the income groups above the extreme poverty level.

The other commodities—meat, fish, fruit, vegetables other than potatoes—are of a different character, they provide a wide range of consumers' choice,<sup>1</sup> and, largely because of this, present greater difficulties of marketing. They do not lend themselves so easily to standardisation, bulk handling, and simplified distribution.

Eggs appear to be in a category by themselves. They could be handled in a simplified system of distribution, but the variation in demand in the different income-groups is very pronounced. This is almost certainly also a reflection of poverty and in any policy which enabled purchasing power to expand they might be included in the first category.

This classification gives us the following result:

### FOODSTUFFS

<i>Category A</i>	<i>Category B</i>
In regard to which there is—	In regard to which there is—
(a) Little or no real consumers' choice.	(a) A wide range of consumers' choice.
(b) Relatively stable consumption in all income groups.	(b) Wide variation in accordance with consumers' incomes.

<sup>1</sup> The variations are a reflection of poverty. Nevertheless, the range of consumers' choice is very wide even apart from the poverty factor.

FOODSTUFFS—*continued*

<i>Category A</i>	<i>Category B</i>
(c) Suitability for bulk handling and mass distribution in a simplified and highly organised system.	(c) Consequent difficulty of marketing.
{ Milk. Condensed Milk.	Meat.
{ Butter. Margarine.	Fish.
{ Cheese. Eggs.	
{ Bread. Flour.	Fruit.
Potatoes.	Vegetables (other than Potatoes).
Sugar.	

Apart from foodstuffs there are other necessities which fulfil the requirements of category A. There seems to be no reason why the fuel and light products—coal, coke, gas, electricity—should not be included also in this special category. There is interchangeability between these products, but no rapid and disturbing changes are likely to take place. A consumer might wish to use gas or electricity for heating purposes in place of coal, but the change-over could only be effected when the equipment had been installed. There would be no *sudden* fluctuations in demand as between one form of lighting or heating and another. In respect of these supplies it can be said that, given a certain purchasing power, there will be a regular demand capable of being supplied—because of the nature of the commodities—by a simplified, highly organised and efficient system of production and distribution. In what follows, however, we shall keep to a consideration of foodstuffs only. The supply of fuel and light presents a different kind of problem which will be referred to at a later stage.

This classification of the items entering into mini-

imum human needs is admittedly arbitrary, but it seems to receive support from the charts of actual consumption at different income levels. It is worth while pursuing the subject in the manner of this classification and trying to discover what "savings of efficiency" seem to be possible in the realm of distribution. We can study the information that is available with regard to the present methods and costs of distribution to the consumer of the commodities included in category A, which seem to lend themselves most readily to methods of the highest efficiency.

*General Retail Distribution.*—First of all, it may be interesting to reproduce a table dealing with Retail Distribution as a whole. This table is taken from a study of the subject by Mr. Henry Smith<sup>1</sup> and gives the number of retail shops in England and Wales in 1931. His estimates are based upon a study of Kelly's Directories, the 1931 Census totals of "managers and proprietors of retail shops", and the information taken from these sources was then modified by comparison with the much richer data available in the United States of America, where an official census of distribution is taken. [*For Table see page 76.*]

It should be noted that in this table the number of outlets is divided into the total population to give the population per outlet. This must not be confused with the number of customers. For most of these commodities, and particularly those with which we are here concerned, the family shops as a unit. The number of households served per retail outlet would, therefore, be substantially less, probably about a quarter of the population figure given in column 3.

<sup>1</sup> Henry Smith, *Retail Distribution* (Oxford University Press, (1937).

There are about 750,000 retail shops in Great Britain.<sup>1</sup> On the face of it, this total appears to be excessive.

### NUMBER OF RETAIL OUTLETS IN ENGLAND AND WALES, 1931.

	Number of Shops	Average Number of Assistants	Population per Shop
Sugar confectionery (sweets) . . .	31,500	0·8	1270
Grocery and provisions . . .	92,700	1·6	430
Milk and dairy products . . .	26,200	0·4	1540
Meat . . .	49,400	1·8	820
Fish and poultry . . .	17,400	1·0	2300
Greengrocery . . .	40,900	0·8	1000
Tobacco . . .	14,300	0·8	2800
Drugs and druggists' sundries . . .	10,100	2·0	4000
Ironmongery . . .	12,000	1·6	3300
Boots and Shoes . . .	12,900	2·0	3080
Textiles and other clothing . . .	74,000	2·4	540
Paper, stationery, books, and periodicals	28,900	0·9	1390
Furniture . . .	12,800	1·4	3130
General and mixed businesses . . .	78,500	0·3	510
Others . . .	73,700	1·6	540

"It is of some interest to note the evidence of the average scale of operations provided by the second column in the table, giving the average number of sales assistants (excluding errand boys, roundsmen, and the like) in each class of trade. The atomic nature of the organisation of retail trade in Great Britain at once becomes apparent from these figures; only one general shop in three, it appears, does sufficient business for an assistant to be necessary, apart from the casual aid of the members of the proprietor's family; the same appears to be true of dairies. Grocers' shops seem to employ upon the average either one or two assistants, and even drapery and the like, at the head of the list, only employ two or three."<sup>2</sup>

The importance of distribution as a factor deter-

<sup>1</sup> Detailed figures are given only for England and Wales where the total number of shops is estimated at 575,300 as per table.

<sup>2</sup> Henry Smith, *Retail Distribution* (Oxford University Press, (1937).

mining the cost of necessities to the consumer is clearly illustrated by the fact that "wholesale and retail distribution of consumers' goods create a net income of £650 million". Comparing this with other industries, we find that "the mines and railways each create a net income of £150 million, the cotton trade £41 million, and the whole group of iron and steel trades only £85 million. Agriculture creates a net income of about £130 million".<sup>1</sup> It is not our intention, however, to attempt to deal with this vast and complicated subject as a whole. Indeed, it is doubtful whether any increased social efficiency and consequent reduction of costs could be imposed from outside the retail industry. In a great many of the classes of goods, the fluctuations of taste and fashion, and the extremely wide range of consumers' choice, are so great that the service cannot be judged by ordinary standards of efficiency. In regard to these classes of goods, the distributor is not confronted with a clear-cut problem of finding the most expeditious and economical method of conveying to the consumer a known quantity of standardised products; he is catering for an inconsequent, fickle, capricious market. The variety of interchangeable competing products demanded by the public and offered by the large number of apparently redundant shops represents a luxury for which the consumer must pay. Various suggestions have been made, including a licensing system, for the rationalisation of distribution as a whole. I doubt whether the problem can be dealt with in any comprehensive way, for it is difficult to see how a public characteristic which is extravagant can be provided for by economical means, unless, of

<sup>1</sup> Mr. Colin Clark, *N.F.R.B. Quarterly*, Spring, 1937.

course, we are prepared to accept a curtailment of the range of consumers' choice.

However, we are not here concerned with the whole problem of distribution. We are considering the possibilities of taking out of the vortex of a high-cost system of distribution certain items in the consumers' budget which are basic essentials of life and therefore vitally important to the poor. We are seeking to isolate specific commodities which have this human importance and which, because of constant demand and of their more or less standardised character, might be dealt with on more rational and less costly lines.

*Milk.*—By far the most important of the commodities we have selected is milk. In 1934 we consumed in the United Kingdom 860 million gallons of fresh milk of a total retail value of £89 million. The final report of the Mixed Commission of the League of Nations on "The Relation of Nutrition to Health, Agriculture, and Economic Policy", dated August 14th, 1937, quotes a recent study<sup>1</sup> of the costs of milk distribution in several cities. The absolute margins between prices received by producer and paid by consumer are shown as follows:

#### MILK MARGINS IN VARIOUS CITIES

(In Pence per Imperial Gallon)

London . . . . .	11 $\frac{2}{3}$ –11 $\frac{3}{4}$
Glasgow . . . . .	9 $\frac{1}{8}$ –10 $\frac{5}{8}$
Berlin . . . . .	6 $\frac{1}{4}$
Hamburg . . . . .	6
Copenhagen . . . . .	9–10
Paris and suburbs . . . . .	5–5 $\frac{1}{2}$
New York . . . . .	18 $\frac{1}{2}$
Chicago . . . . .	19

<sup>1</sup> R. B. Forrester, *Milk Price Margins* (Empire Marketing Board, London, 1932). Quoted by the League of Nations Committee Report on Nutrition (1937).

The high margins in New York and Chicago are partly accounted for by high quality hygienic and delivery services, 3·5 per cent normal butter fat content, compulsory pasteurisation, and universal free delivery in bottle containers. London, Glasgow, and Copenhagen were stated to provide the best standards of hygiene and delivery among the European cities represented.

In an article<sup>1</sup> based upon comparisons made by the International Labour Office in October 1935, Mr. Colin Clark gives the following table of Milk Prices in various countries. In order that these prices may be seen in relation to labour costs, the second column gives the cost of one hour's unskilled labour in each of the countries.

MILK PRICES AND LABOUR COSTS\*

	Retail Price per Gallon	Cost of One Hour's Unskilled Labour
Britain . . . .	26·5	13·8
U.S.A. . . . .	26·3	33·6
Canada . . . . .	20·5	21·7
Australia . . . .	21·0	16·5
France . . . . .	18·2	11·8
Holland . . . . .	18·1	19·6
Italy . . . . .	17·7	8·5
Switzerland . . .	22·4	29·5
Sweden . . . . .	12·8	20·4
Belgium . . . . .	11·6	7·4

\* Converted into pence at the current rate of exchange.

It will be seen from this table that the retail price of milk represented approximately two hours of labour-time cost in Britain as compared with less than one hour labour-time cost in U.S.A., Canada, Holland, and Switzerland, and only about 36 minutes of labour-time cost in Sweden. The discrepancy cannot, there-

<sup>1</sup> *N.F.R.B. Quarterly.*



fore, be explained by difference in wage levels, for the American wage level is given as  $2\frac{1}{2}$  times that of Britain, while the retail price of milk is about the same.

This point is made clear in a further table that Mr. Clark has compiled, dealing in this case only with the costs of distribution—*i.e.* the margin between the wholesale and the retail prices. To express this the distributive margin is given in pence, and the pence translated into labour time in the second column.

#### DISTRIBUTION COSTS OF MILK

	Margin Pence per Gallon	Ditto in Terms of Hours of Unskilled Labour
Britain . . . . .	12.0	0.87
Italy . . . . .	9.0	1.06
Denmark . . . . .	10.1	0.59
Belgium . . . . .	4.3	0.58
Sweden . . . . .	6.0	0.33
Switzerland . . . . .	9.4	0.32

The most remarkable difference emerging from these comparisons is the case of Sweden, where the retail price of milk is 12.8 pence, or less than half the price in this country. The distributive costs alone in Britain at 12.0 pence are almost equal to Sweden's retail price. Sweden's distributive costs are only 6 pence per gallon. This difference cannot be explained away in terms of wage levels, for wages in Sweden are as high as ours or higher. Nor can it be explained by lower quality, for in Sweden the milk is bottled and pasteurised and is of a high standard of cleanliness. It would appear that the explanation may lie in the highly efficient methods of Consumers' Co-operative Societies' enterprise that have been developed in that country, to which tribute is paid by Mr. Marquis W.

Childs in his book *Sweden—The Middle Way*.<sup>1</sup> At any rate, it is clear that there is room for improvement in Britain.

The importance of milk to proper nutrition has been emphasised by every expert who has studied the question. In the League of Nation's report already referred to, there is a paragraph which reinforces our argument for an intelligent treatment of the whole problem of milk distribution on imaginative lines.

"A particularly important field," it states, "calling for improved methods of distribution is offered by the milk trade. A plentiful, regular, cheap, and hygienic milk supply is one of the main essentials of satisfactory nutrition. A special problem arises from the fact that production is subject to greater seasonal fluctuations than consumption, yielding a summer 'surplus' of milk, which has to be disposed of outside the liquid market, and consequently at lower prices; organisation of the liquid milk market is, therefore, bound up with that of various milk products. The complex problem of milk distribution seems to call for regional or national organisation."<sup>2</sup>

*Butter, Cheese, and Eggs.*—The home output of butter in 1936 is estimated at about 950,000 cwt. The total supplies consumed in the United Kingdom were approximately 10,702,043 cwt. Imports from the Empire comprised 53 per cent of the total imports. Home production, as given above, represented only 9 per cent of total supplies. The Mixed Commission of the League of Nations show in their report that many of the exporting countries have, in recent years, been subsidising their exports by charging their domestic consumers higher prices than were charged to the

<sup>1</sup> Yale University Press (1936).

<sup>2</sup> Page 239.

importing country. As a result, there was a sharp fall in butter prices in the United Kingdom, and a corresponding increase in consumption. It is shown "that the demand for butter is elastic and that consumption increased markedly in countries where the price has been relatively low". The new science of nutrition attaches special importance to the consumption of milk and dairy products, and it is, therefore, of importance that we should seek to maintain cheapness and its beneficial results by the saving that will follow from the establishment of a regular secure market and from cheaper methods of large-scale distribution.

Cheese falls into the same category as butter, being largely imported. The total supplies to the United Kingdom Market in 1936 were about 3,771,000 cwt., of which 29 per cent or 1,094,000 cwt. was home-produced and 71 per cent imported.

Total supplies of eggs in 1936 are estimated at the equivalent of 72 million great hundreds (120) of eggs in shell, of which 52 per cent were home produced. An attempt was made, in 1936, to secure the approval of producers for a marketing scheme which had been drafted by the National Farmers Union and the National Poultry Council, but agreement could not be secured and no action has since been taken.

There is no detailed information available, as far as I can discover, with regard to the system of retail distribution of butter, cheese, and eggs, for the country as a whole, but in 1937 the British National Committee of the International Chambers of Commerce conducted a trial census of distribution in six towns.<sup>1</sup> The towns selected for this experiment were Chorley, Kidder-

<sup>1</sup> *Trial Census of Distribution in Six Towns* (The International Chamber of Commerce, 1937).

minster, Weymouth, Wycombe, Stafford, and Jarrow. The total population of these six towns is 183,823. To supply that population there were 742 retail outlets for eggs, 688 retail outlets for butter, and 638 retail outlets for cheese. There will be a great amount of duplication in these figures, of course, for it is probable that a large number of the shops would sell all three commodities.

The total number of outlets revealed by this trial census confirms the comment about the "atomic" nature of the organisation of retail trade in Britain made by Mr. Henry Smith and quoted on an earlier page. According to the trial census there was a total of 4443 retail outlets for all commodities to serve the relatively small population of 183,823 living in these towns.

*Potatoes.*—The supply of home-grown potatoes to the British market is regulated (since 1934) by a Potato Marketing Board. Imports from foreign countries are controlled by compulsory quantitative regulation under the Agricultural Marketing Act of 1933. Under the Marketing Scheme, the producers sell their potatoes through 3534 authorised merchants. Market Plans Committees fix minimum wholesale-retailer prices on the basis of the price paid to the grower, with marginal costs for transport and distribution added. This scheme, like other schemes under the Agricultural Marketing Act, was set up in order to rescue the farmers from recurring price slumps which were driving many of them out of production.

*Bread.*—During recent years there has been throughout the world a great deal of government interference with, and control of wheat production and trade. The object has been the legitimate and proper one of ensuring

to the producer a reasonable reward for his effort. Government intervention has also been inspired in this country with the quite laudable object of maintaining the supply of home-grown wheat up to a specified level, in order that we should not be entirely dependent on foreign sources of supply in the event of war.

Under the Wheat Act of 1932 a "deficiency payment" is made to the farmer on his shares of millable wheat, in order to bridge the gap between the market price of home-grown wheat and a standard price of 10s. per cwt.<sup>1</sup> The fund from which these deficiency payments are made is accumulated by a levy on flour delivered in the United Kingdom. Lest an undue expansion of wheat production should occur, there is a maximum production upon which the full deficiency payment will be made. If production is increased beyond 27 million cwt. per year the deficiency payment is reduced *pro rata*. The amount of the deficiency payment has, of course, varied since 1932; and so, too, has the amount of the levy imposed upon flour delivered in the United Kingdom. This represented a total levy upon flour of £4,778,000 for that year. Since then the amount of the levy has varied considerably. It was fixed at 21·6 pence per cwt. for the period commencing November 5th, 1933; for the 1935–36 cereal year it started at 21·6 pence per cwt. and was reduced on September 29th, 1935, to 19·2 pence, on November 3rd to 16·8 pence, and on February 23rd, 1936, to 14·4 pence. As world wheat prices rose and the total necessary for deficiency payments became less, the quota payments were reduced still further; on August 9th the levy fell to 9·6 pence per cwt. and on November 1st to

<sup>1</sup> Source of information, *The Agricultural Register*, published by the Agriculture Economics Research Institute, Oxford.

4.8 pence—the lowest quota payment since the passing of the Wheat Act.

During 1937 the Food Council reported to the President of the Board of Trade on the price of bread. They drew attention to the existence of schemes arranged between bakers and millers in certain areas which enabled flour supplies to be cut off from bakers selling bread below minimum prices. These minimum prices were very close in some areas to the maximum prices set by the Food Council. At the time of writing, these agreements are still under consideration and some modification of current charges appears likely to be arranged.

There is no information available regarding the distribution of bread throughout the whole country, but the Trial Census of the British National Committee of the International Chamber of Commerce, already referred to, shows that for the total population of 183,823 in the six towns covered there were 854 retail outlets for the supply of bread. If we divide the number of bread outlets into the total population we get the curious result of one bread retail outlet for every 215 persons. This figure might again be divided by four, in order to get the actual number of customers per shop, because the family shops as a unit. It is very probable, of course, that a high proportion of the supply is distributed by larger agencies; but even so there is always a danger in circumstances of this kind that the selling price will be fixed to suit the lowest or at least the average degree of distributive efficiency.

The fact that springs at once to the mind regarding these vitally necessary foodstuffs is that considerable efforts have been and are being made to regulate production and wholesale marketing in the interests of

the producers and that no corresponding action has been taken in the interests of the consumers. The efforts to achieve more orderly conditions of production and wholesale marketing were, in my opinion, absolutely essential in the interests of the national economy, as well as of the producers benefiting under the various schemes. Cheapness, which is bought at the expense of reducing the rewards of the producer below the level of profitability, does not and cannot bring any permanent benefits to consumers whose real economic welfare and purchasing power are bound up with the maintenance of stability. The regulation of production in relation to market demand is essential to real national prosperity, but we cannot stop short at organisation from the producers' end. These schemes impose upon us, as I have already said, the obligation to seek compensating economies in the field of distribution and to discover the means by which a stable market can be maintained which would serve both the purposes of a nutrition policy and the interests of producers. It is in the expansion of consumption and the maintenance of stability at a high level that the interests of producers and consumers can be reconciled.

Though national security and the legitimate claims of the farmer may seem to justify, for example, an arrangement which adds to the price of flour, it should not be forgotten that "the poorer section of modern industrial communities may spend as much as 20 per cent of their total food expenditure on bread or bread products".<sup>1</sup> When the price of bread goes up, more of their income must be spent on this necessity of life and less is available for other foods. It follows, therefore, that any action taken by

<sup>1</sup> Report of the Mixed Commission of the League of Nations.

Government which tends to raise the price of bread, in the interests of national policy and of the producers, imposes upon the community an even greater responsibility for the investigation of every possible means by which the cost might be reduced by higher standards of efficiency in the realm of distribution. Indeed, there is a very strong case for the view that the imposition of a levy on flour to meet the needs of producers, and of national security, is itself inequitable. If money has to be raised for such a purpose, should it not be raised from the public, not in accordance with the amount of bread they eat, which imposes an unfair burden upon the poor, but in accordance with the general principle of taxation, the ability of each citizen to pay.

A similar comment might be made with regard to such schemes as that referred to between the millers and the bakers. The authors of such agreements leave themselves open to a great deal of adverse criticism. The schemes are probably the inevitable outcome of the prevailing conditions. If there is anything like the same redundancy among bakers of bread as among distributors (and this seems more than likely) then they are precluded from securing the economies of large-scale operation because of the excessive number of firms in a scattered industry, and they are forced to enter into price agreements to defend themselves against loss. But a realisation of the difficulties with which bakers and distributors of bread are faced does not make any difference to the conclusion that this standardised product, so essential to the life and welfare of the people, could be produced and supplied to the public by more economical means if it, too, were extracted from the ordinary competitive



channels of supply and dealt with under a special and exceptional system of rational organisation.<sup>1</sup>

The Mixed Commission of the League of Nations reached the conclusion that

“In general, certain stages of distribution appear to offer considerable scope for economies of large scale. The saving in transport and handling costs resulting from centralisation of distribution over large areas, even if not over whole national markets, can be seen in the relative economy and success of co-operative and State schemes for the marketing and distribution of agricultural products and foodstuffs. Economies have been effected in this way, also in the holding of stocks at various stages, in the elimination of wasteful competitive advertising, in rents for warehouses, processing plants, and retail premises, and in costs of collection and delivery.”<sup>2</sup>

It is stated, also in this report, that wages and salaries normally constitute the largest single element in distribution costs. Scope is, therefore, offered for cost reduction by labour-saving devices such as mechanisation and the elimination of handling processes. The adoption of these more up-to-date methods of mechanisation calls for capital investment which can only be justified when distribution is organised on a large scale. We have seen from the table on page 76 that distribution in this country appears to be conducted by a multitude of small-scale concerns. For certain commodities which do not lend themselves to standardised methods of production and distribution, this may, as

<sup>1</sup> The other items in our special category A, *i.e.* coal, gas, electricity, do not require to be dealt with here. The argument for cheaper and more socially efficient methods of supply has equal relevance, but it will be more convenient to deal with them in a later chapter in Part III.

<sup>2</sup> Page 236.

we have argued, be unavoidable. But in regard to the basic essentials which we have selected as being capable of special treatment, both economic wisdom and moral duty dictate that they should be taken out of the casual channels of distribution and supplied through a carefully devised organisation employing the most economical methods available.

## CHAPTER VI

### WHAT HAS TO BE DONE

THIS somewhat cursory sketch has, no doubt, given an indication of some of the broad conclusions which will be embodied in our general policy. But I want at this stage to remind the reader of the relationship between the different aspects of the problem of poverty. It would be a very simple way to end our enquiry by stating that a case had now been established on humanitarian grounds for the enforcement of a minimum wage at not less than the Rowntree level, and that technical social efficiency had been shown to demand a special system of distribution for those commodities that would appear to lend themselves to standardisation and bulk handling. If it were the purpose of this book merely to suggest a number of unrelated improvements that might be made in the social efficiency of different parts of the economic system, this would, indeed, be the end of our pilgrimage. In that case, however, it would hardly have been necessary to begin with such an elaborate introduction as the first two chapters.

The improvement of the machinery of distribution would be a valuable piece of work in itself, but it is only one aspect of the general policy that has to be worked out. A machinery of distribution, whether it be economical or wasteful, can work only in response to consumers' demand. Consumers' demand depends upon the rate of wages, the volume of employment,

and the incomes of the unemployed. All these depend in turn upon the efficient functioning of the economic system as a whole. Our aim is not limited, therefore, to a few piecemeal reforms. It is nothing less than such a reorganisation of the whole economy as will ensure regularity of consumers' demand at an irreducible minimum standard of life, and that minimum must correspond, as nearly as it can be made to do so, with the standard which is technically possible when all our resources are fully employed.

We have to consider not only what is the most economical method of distributing our special list of commodities, but what method we can adopt to ensure a minimum purchasing-power over these commodities, and over other goods and services, whether the consumer is in work or out of work.<sup>1</sup> As the purchasing power of the consumer, and the available resources of the community, will be affected by the level of employment, we must consider ways and means of eliminating or modifying the fluctuations that result in periods of acute trade depression and unemployment. We must accordingly discuss the trade cycle and the means by which a greater measure of stability could be ensured in the

<sup>1</sup> A reminder that the question of health is inseparable from that of nutrition was uttered by Lord Horder, presiding over the Health Education Conference in London on October 1st, 1937.

"I don't think you can isolate this question of national health from economic questions," he said. "They seem to me to overlap, and it is not of the slightest use trying to burke this issue. Last night the Prime Minister and the Minister of Health were supported on the platform by three ex-Ministers of Health and by the Minister of Education. I would have taken fresh hope for the Prime Minister's campaign if I had seen on his platform the Ministers of Agriculture and Transport, because the economic side of making the nation fit is intimately bound up with problems of food provision and food distribution, and it is readjustment of these basic needs which is necessary if we are going to take a really comprehensive view of this campaign." (*Northern Echo*, October 2nd, 1937).

economic system as a whole. And, finally, in the working out of this policy we must bear in mind the limitations that are imposed upon us by our general outlook. We are, of course, seeking greater mechanical efficiency, but that efficiency must serve the material purposes which we have in view, without infringing the freedom of the individual or injuring his spiritual development.

The last point is of vital importance. In the world of today every thinking person must be aware that the question of preserving personal freedom and individual liberty is by no means academic. It is the living reality of modern politics. Over a large part of the world the democratic form of government, which was the framework wherein this idea of the dignity of human personality was at least kept alive, has been abandoned. Under different forms of dictatorship, totalitarian in their scope, the State usurps the right to discipline vast communities in the service of economic, political, and social policies upon which the citizens are never consulted.

This discipline does not stop at the organisation of economic and commercial activity, and at enslaving the individual only for the period of his working day. It stretches into every aspect of his personal life, determining the kind of information that will be imparted in educational institutions, in the newspapers, and over the wireless; it regulates, in accordance with the views and opinions of the ruling group, the kind of books he will be allowed to read or write, the kind of entertainment he will be permitted to enjoy, the opinions he will be allowed to express, and even, so complete and totalitarian is the discipline, the kind of thinking of which he will be capable after having been subordinated to this tyranny.

I can imagine that when future generations study the history of our period the question that will puzzle them will be "how did it happen that men who had secured for themselves a considerable measure of liberty in democratic States were persuaded to surrender it?" Probably the answer is that in their reaction from a time of privation and disorder, open to the conviction that regimentation was the only alternative to anarchy, eager for a substitute for the glamorous leaders they had lost or overthrown, and impatient for the recovery of national prosperity and prestige, they fell victims to the grandiose promises made to them by unscrupulous men who sought power.

These "men of action" may have deceived themselves as well as their followers; indeed it would be difficult to understand their success without assuming a considerable degree of sincerity. Having achieved power by violent means they must hold it or perish. They have decided that the way to hold it is to command all the avenues of information, learning, and propaganda, and to destroy by force, not by argument, every kind of opposition that threatens to raise its head. The result is that oppression has swept onwards from the extermination of political opponents, the victimisation of chosen scapegoats, like the Jews, to the "cleaning up" of every "dangerous" idea that may reach the public in schools and universities, in the scientific laboratories, in the Church, in the theatre, in books, periodicals, or newspapers, or through any other agency of human association and communication.

I do not intend to discuss the relative merits or demerits of the different dictatorships—Fascist, Nazi, or Communist. They have each sprung from different economic, social, and psychological circumstances and

they have been dominated by totally different ideologies aiming at different objectives. I am merely concerned with pointing the lesson. In the long run no class, no social group, no nation can benefit from the adoption of those methods which run contrary to the best impulses in mankind. Certainly no man is qualified to withstand the influence of such unrelieved power; and the whole future progress of humanity will depend upon our ability to resist the spread of this tyranny and find along the paths of human freedom a solution to our problems which will be based upon consent and not upon coercion.

Even if it could be shown that these methods were desirable, they are, as far as this country is concerned, still happily impossible. Neither the Fascist nor the Communist revolutionary technique holds out the slightest hope of success with us within any period of time it is possible to foresee. Nor will that time ever come, if we make an intelligent effort to deal with our social problems now. The policy of the official Labour movement, which renounces the methods of violence, is a very different matter, but it seems to me to be making a similar error. In alluding to the apparent contradiction between man's desire for economic advancement depending upon the discipline of co-operation, and his desire for personal liberation which frees him from disciplines and restraints, I suggested that it was the task of statesmanship to reconcile these opposites in a policy which produced greater compensations and lesser sacrifices. What has been said regarding the totalitarian States comes into my argument as a warning as to the kind of error into which we are prone to fall.

When we look back on history we find that pro-

ductivity has been increased and the standard of life raised by methods of co-operation, many of them directed by the State. When we relate this to the poverty and insecurity that now exist, there is a danger that we may jump to the conclusion that the solution of our difficulties is to be found in the extension of State organisation and discipline to embrace the whole range of economic activity. In my reference to this tendency in Chapter II<sup>1</sup> I gave an example to show that an indiscriminate and unwise extension of social organisation, and therefore social discipline, might result, not in the enlargement of man's welfare and freedom, but in his enslavement. He would be coerced into a surrender of time and energy—and therefore of his individual freedom—for the increased production of things he had no desire to use. It is upon this argument that I wish to base a defence of private enterprise in the production and distribution of a wide range of goods and services lying outside the field of minimum human needs.

My contention is that the way in which these opposite desires of men are to be reconciled is by a clear differentiation as between the proper sphere of State, social, or co-operative activity, and the proper sphere to be deliberately reserved for private enterprise.

The Socialist relies upon the argument of poverty and insecurity as evidence of the failure of Capitalist society, and proposes, not a direct attack on the immediate causes of poverty, but a complete reconstruction of society on Socialist lines. He argues from the particular to the general, and he is led into an acceptance of what might be called "economic totalitarianism". Along this route he might achieve a considerable

<sup>1</sup> Page 22.



elimination of poverty, but the further he goes the greater will become the danger of a surrender of individual liberty. By applying his theory to the *whole* of economic activity he will produce a state of affairs in which human life will be compressed within a common pattern; and in which the individual will be forced to conform to the kind of life which others think he ought to lead. The hours of his labour, and therefore his leisure, will be socially determined. His labours may be further increased and his leisure further reduced as a result of social or national policies with which he is individually out of sympathy.

Instead of liberating the individual—even assuming that poverty is abolished—such a society will enslave him by the subordination of his personal desires and tastes into conformity with national policy. It makes little difference to the individual even if the democratic forms are preserved and the infringements of his leisure and cultural opportunity are the result of majority decisions. It may be argued that he will be receiving a greater return in terms of economic wealth for the labour he is expending. He may be given motor cars, dress clothes, and circuses, but this will be no compensation to an individual who desires leisure for the expression of his individuality in quite uneconomic ways. For he will be asking to be allowed to contract out of a social obligation to produce more and more of the things that the State power, or the majority of the citizens, desire to have. This is precisely what the ruling group in such a community cannot permit.

The purpose of these arguments has been to show why I reject the approach to our problem adopted by the different schools of political thought. I reject the

old method of humanitarian social reform on the basis of a transference of wealth through taxation, because it has reached almost the limits of what it can achieve. It is an obsolete and inadequate policy in the circumstances of today. I reject the Fascist and the Communist theories of violent change because (a) they are politically impossible, and (b) the revolutionary seizure of power would be, and must be, followed by a political tyranny in which man's cultural freedom (which is the prerequisite of human progress) would be sacrificed. I reject the constitutional Socialist approach because, even if their "economic totalitarianism" would work without political tyranny, it would sacrifice the beneficial dynamic element that private enterprise can give to society when exercised in its proper sphere, and because it would not provide the scope for human diversity which is essential if men are really to be free. But the most important reason for the rejection of these theories is that they are remote from what is immediately practicable in the circumstances of our time.

In outlining my own suggestions as to what seems to me to be at once practicable, desirable, and adequate for the immediate future, I shall not hesitate to borrow from the established schools of thought those parts of their theories that contribute something useful towards the attainment of our objective. It is clear, however, that my policy can only emerge from the wider study of our present circumstances which makes Part II of this book essential. But before going on to that, it might be advisable to take a second glance over the ground we have covered and try to summarise and correlate the general principles that seem to have emerged.

In the first place it is clear that considerable numbers of our population do not receive sufficiently

high money-incomes, even when they are in employment, to enable them to buy the minimum supply of food, clothing, fuel, and shelter necessary for the maintenance of health and physical efficiency. This opinion is supported by the evidence of Mr. Rowntree and Sir John Boyd Orr, and by the tables of wage rates extracted from official sources. It is not a new discovery. We have always been aware of the widespread existence of poverty. But the recent studies of nutrition and malnutrition in relation to existing incomes have served to provide us with a more intimate knowledge of the meaning of poverty and of its consequences in ill-health and lack of vitality. As a result of these studies, poverty can no longer be regarded as an unhappy individual visitation. It is a general social problem. It is the supreme problem which challenges statesmanship. In one way or another it will, as long as it exists, exact payment from the nation which tolerates it, or fails to eradicate it. We must pay either through the physical degeneration and industrial incapacity of the victims, together with the consequent high costs of curative health services, or else by the costs of preventative action. If it is to be eradicated by preventative action, then the costs can only be met, like all other improvements in the standard of life, out of the greater productivity of more efficiently organised production and distribution.

This poverty is accompanied by its twin evil, insecurity; a social disease which spreads its malevolent effects over a much wider area than actual poverty. Insecurity<sup>1</sup> hangs like a dark cloud over the lives of an

<sup>1</sup> It is impossible to obtain any comfort from the view that this insecurity is mitigated to any great extent by diffusion of the ownership of capital resources. According to the estimates made

overwhelming majority of the people of all classes. It eats away the very basis of personal confidence and ease of mind. It creates and perpetuates a morbid preoccupation with material needs, it centres a great part of the attention of the individual upon his own and his dependants' elementary physical requirements; it gives rise to fears which curb the development of generosity of spirit; it fosters self-interest; it limits and restricts the intellectual and social interests of the individual to a narrow concentration upon his own welfare; it is a social disease which militates against

by Mr. G. W. Daniels and Mr. H. Campion (*The Distribution of National Capital*, Manchester University Press; quoted in *Manchester Guardian*) three-quarters of the population over 25 years of age own less than 5 per cent of the total capital of the country, and 1 per cent owns 60 per cent. The actual figures, which are for the years 1924-30, are as follows:

Holding Capital of—	No. of Persons 25 and Over	Amount of Capital Held
£100 or less . . . .	17,052,000	£500 million
£100-£1000 . . . .	3,862,000	£1632 „
£1000-£5000 . . . .	1,035,000	£2610 „
£5000-£10,000 . . . .	192,000	£1519 „
£10,000-£25,000 . . . .	125,000	£2177 „
£25,000-£100,000 . . . .	58,000	£2813 „
Over £100,000 . . . .	11,000	£3504 „

The significance of these figures may be grasped more easily in terms of percentages.

Holding Capital of—	Percentage of Total Persons over 25	Percentage of Total Capital Held
£100 or less . . . .	76.3	3.6
£100-£1000 . . . .	17.3	11.1
£1000-£5000 . . . .	4.6	17.7
£5000-£10,000 . . . .	0.9	10.3
£10,000-£25,000 . . . .	0.6	14.8
£25,000-£100,000 . . . .	0.3	19.1
Over £100,000 . . . .	0.05	23.8

every forward impulse of mental, moral, and spiritual development. Within certain limits it is possible for men to adjust themselves to a given standard of living. With economic security at any point, however low, above that minimum of human needs in food, clothing, and shelter which is sufficient for the maintenance of physical efficiency, the opportunity is presented to men of finding happiness in their own intellectual and spiritual development. Granted this security, they might stretch forward towards cultural achievements hitherto unimagined. But without it, so long as the very basis of physical existence is menaced by insecurity, it is almost inevitable that the need of each individual to concentrate upon the saving of his own life—that is, his physical welfare—at whatever cost of injury to others, will restrain and inhibit the nobler impulses. If, therefore, we agree that life offers infinitely more to men than mere physical well-being and the satisfaction of animal appetites; if we desire to create the conditions in which it will be possible for men to climb higher in the scale of animate things, it is essential that we should seek to plan a society in which their security against want can be guaranteed.

Our survey started with an estimation of what it is that men are striving to achieve in their lives. It was asserted that consciously or unconsciously man has been seeking liberty—liberation from the restraints imposed upon him at different stages of his upward struggle. Experience has taught him the difference between individual licence and individual liberty. He has learnt that he can achieve more liberty by accepting the necessary restraints of communal life than could ever have been possible in an isolated existence.

Throughout his history, man has been bargaining individual licence for collective freedom. Sometimes he may have made a bad bargain. Often the benefits have accrued not to all men equally but to some men at the expense of others. But, whatever mistakes he may have made, it is possible to detect the thread of purpose in all the changing configurations of social life through which man has evolved. He seeks a form of social organisation which will give to him the maximum of economic security and comfort with the minimum demands upon his time and energy. By this means he will enlarge his liberty. He will free himself from the restraints of poverty by a smaller sacrifice of time and energy than would, in the absence of co-operative methods, have been necessary, and, having fulfilled his obligations to society, he will enjoy a greater freedom to indulge his personal idiosyncrasies or individual diversity.

We took note in passing that these two human objectives—*i.e.* greater economic welfare and greater individual freedom—bear an original relationship of opposition to one another. That is to say, in the first instance, there seems to be a contradiction between man's desire for higher economic standards—which can be achieved only by greater social co-operation, and therefore greater social discipline—and his desire for greater individual liberty, which would apparently be curtailed by that social discipline.

It is with the reconciling of this contradiction that political policy is concerned. It must seek to harmonise the two desires, and unify them in a policy which serves them both. It must discover how man's submission to greater social discipline can result in adding to his freedom rather than detracting from it. It

must prove always, in practice, that the co-operative methods, for the sake of which there is a certain surrender of individualism, do in fact result in giving back to the individual a greater measure of liberty than he originally sacrificed.

I have laboured this point again because it is vitally important to an understanding of the conclusion to which we are moving, and also because it has a very direct bearing upon the political controversy of our time.

I want to argue, therefore, for the deliberate preservation of private enterprise in a field lying outside the range of minimum human needs. I support it for the purely economic reason that it ensures initiative, the adoption of new methods, the exploration of the market possibilities of new products, and speculative experimentation with new scientific discoveries. More than that, I mean to submit that freedom of individual initiative and enterprise in these fields is essential to the preservation of liberty, to the freedom of each person to live his life in his own way, and to the provision for that diversity which is characteristic of the human mind.

But I do not propose to employ this defence of private enterprise in the fields for which it is best suited in order to condone or excuse the poverty and insecurity in the basic necessities of life, which we have today as a legacy of unrestrained competition and uneconomic waste and redundancy. I shall advocate, all the more passionately on grounds of morality, of social responsibility, as well as of economic wisdom, a wide extension of social enterprise and control in the sphere of minimum human needs. The satisfaction of those needs is a duty which society owes to its citizens.

In carrying out that responsibility it should adopt the most economical methods of large-scale co-operative enterprise. The volume of the supply of these necessities, the prices at which they are sold, and the power of the consumer to buy them should not be left to the determination of the push and pull of competitive effort. We have to evolve a new system by which the supply of those articles which we have classified as being of common need and more or less standardised in character, would be absorbed into an amplified conception of the social services.

Because the tasks we have set ourselves are inter-related, and because the efficacy of any proposals made under the one heading would be conditioned by those to be made under others, it will be necessary for the reader to suspend judgment until the whole field has been covered. It is because of this inter-relation that it is necessary here to break the line of the argument in order that we may take a broader view of the economic and social background into which our proposals must fit. By examining the economic system on a wider front, I hope to disarm some of the theoretical criticisms and to prepare the way for the adumbration of proposals to meet the needs which our survey has revealed. The problems of poverty, insecurity, and liberty, taken together, have so far defied solution. The proposals I shall advance will be drastic and far reaching. But still more drastic will be the consequences of leaving them too long unresolved.





**PART II**  
**THE METHODS**



## CHAPTER VII

### PAST THEORIES AND PRESENT NEEDS

IN our effort to understand the society in which we live, we are helped by the economist and the historian. The economist is able, as a result of his study of how the economic system *has* worked, to provide us with concepts and theories by which we may make anticipations as to how, in different circumstances, it *may* work. The historian explains how society has developed, how it has grown from a relatively simple economy to a highly intricate one. By following this story point by point we are better able to understand the economic structure that is now in existence.

But both these methods are apt to convey false impressions. In formulating his concepts and theories, the economist is reasoning upon the basis of his own assumptions. These assumptions may not be fulfilled; they may not correspond exactly with the facts of any given situation in real life. They are, therefore, no more than the tools which the expert provides for any social thinker who cares to use them. When the economist begins to analyse the economic system as a whole in order to explain its working, he has, as it were, to take the mechanism to pieces in order to explain the meaning and the function of each of its parts. In these explanations he has to suppose that certain prior conditions exist throughout, it may be, a long chain of the actions and reactions of different individuals. The analysis, by its very nature, provides only a still-life

picture—in the way that an anatomist might use a skeleton to teach his students about bones, or a dead body to explain the physique of a living being.

It is important to remember that society is not static. It is never standing still. Not only is it always working and moving, but it is always changing. The lessons we learn from the past can never be applied by negative rule-of-thumb methods to the present or the future. In the interval the conditions have changed.

The economic historian is beset by a similar difficulty. In order to explain the development of society, he divides its history into stages. He provides these stages of development with names that convey the dominating characteristics of social organisation at each period of time. The reader, although he does in fact know better, is apt to think too rigidly of the stages of social development typified, for example, by the names of Feudalism, Mercantilism, and Capitalism; he may easily overlook the fact that there probably never was a moment in history when any of these systems ever existed in its perfect, text-book form.

All of us are inclined to turn every period of history into something to which we can apply a convenient title. It is perhaps inevitable that this should happen to some extent when we are engaged in propaganda, but it is important that it should not happen when we are calmly engaged in the business of constructive social thinking.

I have tried to convey an adequate impression of the importance of this constant evolutionary change in society, because my argument will be that there are more lessons to be learnt from a study of how different units in the economic system are in fact reacting to changed circumstances, than from theoretical

conceptions of how they might be expected to react. I have not the qualifications that would entitle me to enter into a discussion of the profundities of economic analysis, nor is this the place for a detailed historical survey of how the present economy evolved. I can merely try to use the tools which the economist and the historian have provided for me in my effort to understand what does happen, and is happening, in actual life today.

In the search for a method of conveying to the reader the speed and the *direction* of economic changes, it seemed perhaps useful to compile a list of the new forms of organisation and control that have been created, either by Governmental action or by the voluntary effort of producers themselves. This would enable one, instead of adopting the analytical or the historical method of explaining present-day society, to follow the factual method and simply record the profound and far-reaching changes that have taken place in recent years. I was surprised to find that, while there have been a limited number of studies in this field, there is no single book that gives a complete and comprehensive picture of the present structure of economic organisation in this country. Such a study really requires a book to itself and can be dealt with only in a very summary form as a section of such a book as my own. But it has an important bearing upon the method of approach towards our economic problems that I believe to be right, and I shall, therefore, bring together in the next chapter what information I have been able to collect from a number of different sources.

The need for a factual approach of this kind is illustrated by much of the political controversy of our time. This controversy tends to create the impression that

the really important question in dispute today is whether we should strive to preserve a definite form of social organisation called Capitalism or seek to overthrow it in favour of an equally definitely delineated form called Socialism. This argument between the advocates of Socialism and public enterprise, and the defenders of Capitalism and private enterprise, takes little or no account of the changes that are taking place all the time in the society they are arguing about. Their hearers are given the impression that Capitalism is a static, unchanging form of economic and social organisation, working in accordance with preconceived rules and principles. It is discussed as if it had been deliberately created by economic theorists and could be deliberately changed as easily as we change our Governments.

This is, of course, a completely false conception. Nobody ever *invented* capitalist society. It came into existence, in obedience to the economic needs of the time, by a process of growth and development, and it has been growing ever since. Although it is still described as Capitalist Society it is wholly different today from the society which was so described in the early days of its history. Today we have incorporated into its framework Nationalised and Municipalised industries and services, Public Utility concerns and Statutory undertakings of various kinds which are much more in accordance with the theories of Socialism than with the theories of Capitalism. There has been growing up within the legal framework of a profit-making system a nucleus of enterprises which are not conducted on ordinary private profit-making lines. Capitalism has been changing of its own accord; it has, in fact, been searching out and reconciling with its own existence

socialistic methods and principles where these have seemed more suitable for the performance of certain functions.

It is important to our practical purpose that we should see society in this way—as an inheritance of the past and a precursor of the future; as a changing and developing structure which must of necessity be modified and adapted to new circumstances. These changes arise mainly out of the growth of scientific knowledge and achievement. By the utilisation of new discoveries and inventions, changes take place in the methods of production, and the speed, cost, and convenience of transport. As a consequence, the industrial and geographical distribution of our population, the numbers in employment in different industries or in different parts of the country, the distribution of incomes and the purchasing power of those incomes over different classes of goods and services, are subjected to changes which have far-reaching repercussions on the whole economic life of the nation. These changes in the economic system set up new social problems which have to be dealt with by methods of social provision which were neither necessary nor appropriate at an earlier stage.

But, if it is agreed that it is correct to view society in this way, to see the existing forms of organisation as a temporary phase in the onward march of developing social history, as a flexible adaptable system capable of voluntarily assimilating and incorporating new methods, new principles, new theories, then much of our political discussion conveys a totally wrong impression of the nature of the problems with which we are faced and the methods of reasoning by which we might find their solution. The advocates of Socialism



too often put forward their theory of nationalisation and public control as a matter of unassailable social principle. The opponents reply by conferring the same inviolable sanctity on their theory of private enterprise. We appear to be faced with quite irreconcilable and opposing principles and with a situation in which nothing can be done except to divide into two uncompromising and opposing camps in order to prepare for a trial of strength by the ballot-box, by strike or lockout, or, if the problem of poverty is too long neglected, by civil war.

Indeed, if these rigid die-hards on both sides have their way this last is the inevitable result. If Capitalism had been conducted all along as if the theory of private enterprise were a matter of principle; if any intervention by the State to restrain the owners of property, to humanise the conditions of employment, and to encroach in a hundred ways, by our network of social services, legislative restraints, and Statutory undertakings, upon the pure conception of a Capitalist society had been too rigidly resisted, then we should have had civil war long ago. It is because this is not true, because the form of economic and social organisation has never been regarded, except by such extremists, as being based upon abstract and inflexible principles, that we have expanded the productivity of industry, enhanced the liberty and welfare of the people, and achieved so much progress, already, without violence and civil strife.

The theoretical conception of the private profit-making system is that it is a self-balancing mechanism in which the enterprise and initiative of each individual seeking his own profit will result in the highest productivity and ensure the greatest good of the greatest

number. In theory, and on paper, it is perfect. The free play of the market will ensure that the right things will be produced in the right quantities. Prices and costs will adjust themselves so that the full products of industry will be exchanged. The amount of money saved and invested, regulated by the rate of interest, will be exactly equal to the need for new capital to develop new processes. Capital and labour will be allocated to the production of exactly those things the consumer wants to buy. And if men lose their jobs in the production of consumers' goods and services, they will be found employment in the building up of new capital resources for the satisfaction of some new and expanding market for consumers' goods later on.

Now, I am not an economic historian, but I do know that the economic system has never worked quite in this idyllic way. Throughout the history of Capitalism there have been periods of slump and boom, minor crises and major disasters. I am willing to believe that in a young, relatively simple and expanding economy such a system did give the maximum satisfaction obtainable at that time. Even the Socialists will agree that, for the purpose of rapidly developing the new technical methods of production, for the rapid exploitation of newly discovered resources and supplying new expanding markets, in fact, for the time and circumstances in which the theory was evolved, it was socially advantageous and beneficial. I see it, therefore, as a concept suitable to the pioneering days of Capitalism. But I remember also that it was accompanied by all the hardship and suffering which pioneering usually involves. The great rule was that there should be no outside interference with the working of economic laws.

This conception of society provided a theoretical

justification for resistance in the past to those very measures of social reform and restraint which are now seen to be the elementary necessities of a civilised people. When any attack was made on the inhuman conditions of labour in the last century, it was argued that such measures were an intolerable interference with the laws of a free economy and that disaster would follow. When we abolished child labour, and the labour of women in certain occupations; when we legislated for maximum working hours at different ages and granted the workers rights of combination in their Trade Unions; when, later on, we instituted unemployment insurance and minimum wages under the Trades Board Acts, in fact, at each step in the long history of State interference with the most mischievous factors in a free economy, we have been told that evil, perhaps fatal consequences would result.

There are not many people left today who really believe it possible or desirable now to revert to the free economy of the past, even in the form in which it actually existed; still less in a form in which it was theoretically defined. But often the arguments used against those attempts at planning and regulation that have already been made, and against every new proposal for improvement, are in reality derived from that theory of society. Many opponents of planning content themselves with attacking the whole conception of regulation by adducing particular examples which, because of their limitations, may set up injurious reactions. But those opponents ought to be careful to explain to us the extent of their opposition. If they agree that complete freedom of enterprise cannot be restored and yet oppose any attempt at conscious regulation, then they must tell us how far

they would propose to go in the restoration of economic freedom to the individual to "do what he likes with his own".

It does not seem to me to be worth while arguing at this stage as to whether we should have been in a better position today if we had been less morally *sensitive* in the past to the hardships which the economic system was inflicting. I do not doubt for a moment that the restraints which have been exercised by the State have imposed difficulties upon those responsible for the conduct of industry, and that the more sensitive we are to human suffering the more intellectual and industrial ingenuity we must display to enable us to afford the luxury of being sensitive. But I have also no hesitation in believing that it is better for economists, statesmen, scientists, and industrialists to endure the hardship of original thinking than that we should be intimidated by the difficulties into attempting to stop, or put back, the clock of human progress. Why should there be no parallel in dealing with our economic ills to the study, research, outlay, foresight, and avoidance of needless pain which we exact of those who treat our bodily afflictions? It is better that we should face the problem of finding a method of conscious regulation adequate to a solution of the problems which progress involves, than that we should sacrifice human life and happiness on the altar of economic theories.

It is argued, of course, that the humanitarian limitations with regard to child labour, the hours and conditions of employment, etc., are quite different from the kind of economic interferences that are now practised or proposed. But the truth is that whether the interferences are embarked upon for humanitarian or for economic *reasons*, the actual economic *consequences*

are the same. The virtue of the old system, at least in theory, and to some extent in fact, was that it was self-adjusting. Immediately we insisted that it should observe regulations, and that other than purely economic considerations should be taken into account, its self-adjusting characteristic was impaired. Having allowed humanitarian considerations to creep in, it was inevitable that economic difficulties should arise which could be solved only by the removal of the obstacles to adjustment or by more interferences which reduced still further the self-adjusting possibilities of the system.

A single example will make this clear. There can be no doubt that the volume of employment is influenced by the level of wage costs in production. In times of depression a certain amount of capital extension or replacement, which is not considered profitable at a given level of wage costs, might become profitable if wage costs were lower. Now wage costs are obviously related to hours of labour, to the kind of labour—*i.e.* whether children or women can be employed—and to the expenses of maintaining any particular standards of sanitation and safety in the factory. By imposing legal restrictions upon the entrepreneur regarding all these factors, the wage costs of production may be kept at a higher level than that at which workers could be profitably employed. In that case the workers will remain idle. The social conscience is then awakened regarding the plight of the idle poor. Action is taken to provide them with the necessary sustenance. Gradually the social services develop to take care of the unfortunate in a more organised way.

It could be argued in strict economic terms that if the restrictions upon the entrepreneur had been re-

moved, if the standard of life and conditions of employment of workers had been lowered, all the above consequences need not have followed. The adjustment of wage levels, etc., to the "level of profitability", would have enabled them to be absorbed into productive employment. There have been, and may still be, minds capable of being satisfied by dispassionate blackboard reasoning of this kind.

We, however, chose to pursue the course of humanitarianism, and we have now reached a stage, as I pointed out in Chapter III, when the old methods of transference of wealth are no longer adequate. We can reduce our social burdens only by making the economic system work in a more efficient way. We are back again at the question that has confronted society at every step in the development of communal responsibility. That question is, whether we shall leave ourselves to be ruled by the laws of a free self-adjusting economy or deliberately interfere by means of conscious planning. If interference is wrong, and if we are incapable of planning, then the existing interferences should be removed. There is nothing essentially different, from the standpoint of economic principle, between pegging wages and hours of labour at an arbitrary level by legislation, and pegging agricultural prices by a producer's scheme. The pegging of wages and hours will push up prices—all else being equal—in the same way as does a producer's scheme. It might even be argued that there is no essential difference between imposing import duties upon the cheap products of Japan and putting a fair-wages clause into a public building contract.

You may argue that any particular interference or imposition is mistaken, unwise in the public interest,

or unfair in its incidence. But that is not an argument against planning or regulation in principle; it is only an argument against what you would conceive to be one example of unwise planning. The argument in favour of planning is not, therefore, some new and unheard-of principle. It is merely an extension of that principle of interference and regulation which has been common to the political thought of England since the first Factory Act was passed. But, if we are to become masters of our fate instead of slaves of circumstance, the principle must now be extended, and applied to a much wider field, because this has become essential in the changed conditions of today.

The case put forward by Socialist critics of the present system is quite different. They do not admit, at least in theory, that it is possible to find any solution of the social problems of our time within the framework of a profit-making society. They advance the view that the prior condition of national economic planning is that the capital employed in the production and distribution of wealth must be socially owned, and that only then can it be made responsive to social direction.

Some sections of the Socialist movement stick rigidly and logically to this position. The result is that they think in terms of a social upheaval in which they would be able to seize power to inaugurate Socialism. It may be noted in passing that if power is achieved by such means it would have to be followed by a period of national discipline under political dictatorship. Fortunately the overwhelming mass of the people shows no sign of being persuaded of the wisdom of these tactics—whether it be by the method of insurrection or by the misuse of democratic power for

revolutionary ends—and I am quite confident that long before we reach such a desperate pass the great majority of progressive-minded people in all parties will be persuaded of the need for great changes to conquer the evils of poverty and hopelessness from which alone such action could spring.

Indeed, the revolutionary view is so remote from political reality that it need not be discussed here. Our task is to prove that it is both unwise and unnecessary to sacrifice democracy, political liberty, and individual freedom, in order to deal with our economic problems: and, if we were not already convinced, the happenings in other countries where the method of dictatorship has been tried may have helped to convince us.

But the official Labour movement, when it is faced with the need to translate its theory into terms of immediate application, produces a much milder set of proposals than the socialisation of all the means of production. It proposes to assume a measure of public control over finance, land, transport, coal, and power. I say a measure of control because that is really what the policy amounts to. Only the Bank of England is to be nationalised—not the joint stock banks and other financial houses. The land is not to be nationalised all at once;—it is proposed that an enabling Act should be passed to enable Government and other public authorities to purchase land, as and when they require it. Transport and the coal industry are to be nationalised and conducted by Public Utility authorities.

That is four major industries—or parts of them—are to be socialised in five years. Even then, it should be remembered that the owners are not to be dispossessed without compensation. “A fair price will be paid for all private property transferred to public



ownership." The financial capital of these concerns will therefore continue to be privately owned, for presumably the purchase price will be raised by borrowing.

This programme is certainly much nearer to political reality than the high-sounding resolutions that have been so casually passed by Labour conferences in the past. But, if social benefits are to result in any measurable period of time, the policy cannot be reconciled with the view that the prior condition of national planning, by which those benefits are to be secured, is the acquisition by the State of ownership and control over *all* the means of production. Nor can it be reconciled with those sweeping generalisations about the Capitalist system as a whole which usually figure prominently in the Socialist analysis.

There is a clear distinction to be drawn between a policy that arises naturally out of the evolutionary trends in society and proposals that are elaborated upon a basis of abstract principle. To impose a policy upon society without regard to the stage of evolutionary development which has been reached, either in the industrial and general economic structure or in the political thought of the nation, is a dangerously artificial procedure. To build up a policy upon the basis of the experience gained from recent developments seems to me far wiser. The line of progress is then in harmony with what the nation has been prepared by experience to accept.

However drastic and far-reaching changes may be, if they are in line with the trend of evolutionary development they do not invite a plunge into the unknown. They are thus more likely to receive the assent of the instructed section of the community on whose shoulders will fall the responsibility for carrying

them into effect. The practical politician must have regard not only to what is ultimately desirable but to what is immediately possible.

We should, therefore, seek to guide and assist these evolutionary tendencies to meet the economic and social needs from which the tendencies arise. The policy must be vigorous enough to produce a solution of the problems; it must not be modified to suit any vested interest, however powerful. It should, however, take account of the economic, intellectual, and political preparedness of the nation for any changes that are proposed.

I believe that the political ideas of a nation in regard to the organisation of its economic life are largely formulated out of the actual experiences of men in dealing with the problems which any given policy may claim to solve, and it is for that reason that I shall try to bring together the information that is available regarding the whole trend towards co-operative methods, both in the public services and in private industry.

Such a survey will show that the doctrine of *laissez-faire* has been abandoned in practice; that the boundaries of "public enterprise" have been very greatly extended; and that intervention by the Government in the economic life of the nation is increasing rapidly. It will show that in private industry the theory of free competition is also being largely abandoned in practice. Great efforts have been made with or without the assistance of legislation to enforce schemes of regulation and control which are contrary to the whole conception of free competition. These movements have arisen, it must be remembered, not in obedience to new theories, but as the reaction of practical business men in response to the changed circumstances in which industry and

commerce have to be conducted. Faced with the practical difficulties of their daily business life, the responsible leaders of industry have adopted new methods of functional association and co-operation.

Neither the public authorities nor the private owners have been concerned very much with the wider implications of their actions. In most cases they have been able to take only a relatively narrow view of the changed circumstances, seeing the problem, or at least only attempting to deal with it, in relation to the particular industry or service with which they are concerned, or for which they are responsible. It is our task to examine the results of their actions and try to grasp the social significance of these new forms of ownership, management, and control which have already been created and are still emerging. The economic and social theories of capitalist society were evolved after considerable headway had been made in the actual practice of capitalist methods. A study of the significant developments of recent years may provide us with a new theory of society in accordance with which immediate policy might be directed towards the creation of a new social order.

## CHAPTER VIII

### PUBLIC ENTERPRISE AND PRIVATE COMBINATION

It would lead us too far astray from the purpose of this book to go into a detailed explanation of the circumstances out of which each of the new types of business organisation arose. We must, therefore, make the general assumption that, where a structure has been created with the motive and the result of achieving greater co-ordination and substituting co-operation for competitive methods, this action became possible only because of the unsatisfactory conditions which previously obtained.

Our survey will cover a great variety of undertakings. In some of them, as, for example, gas and water supplies, the services tended, because of physical conditions, to take on the character of local monopolies, and, in defence of the public interests, statutory regulations and obligations had to be imposed. In other cases the new methods were adopted because the unrestrained competition of independent units was producing either unprofitable conditions for the participants or socially unsatisfactory results for the users or consumers of the goods and services supplied.

Lack of profitability destroys the impulse to progress in privately owned concerns, and the failure of enterprise to meet the new demands of a developing society makes it essential for public authorities to step in and assist in bringing about the reorganisation necessary to ensure that these needs will be served.

In some cases the impulse to create profitable conditions, by the restraint of competition or by the reduction of costs, brought about the changes; and in others the pressure of public authority had to be applied. The reader who wishes to give fuller consideration to the circumstances which gave birth to the new forms of organisation, or to study in greater detail the powers and functions of the new authorities, will be able to do so by consulting the books and documents specially devoted to these matters, to which reference will be made.

There is a remarkable dearth of information in any convenient form, and I must warn the reader again that the following survey is probably incomplete. But it will be sufficiently extensive to indicate the trend of development and to convey a rough picture of the present position. There may be some difference of opinion as to the correct classification of the various authorities, but what I want mainly to show is the growing intervention of the State or other public authorities in the control or regulation of economic functions, and the trend towards co-operative methods in privately owned industry.

It is difficult to know where the line should be drawn to begin a definition of this kind. There is a sense in which the whole of the functions undertaken by the Government and Local Authorities might be regarded as economic functions, and a large number of them certainly infringe upon a field which would, in the absence of governmental intervention, have been occupied by private enterprise. At any rate, the need for these services would have existed, and, in so far as the public was able to pay for the satisfaction of that need, it is reasonable to assume that

private enterprise would have attempted to provide the services. Many of them, of course, are services which are made universal by means of taxation. The great mass of citizens could not, or would not, have paid the full cost of the services for themselves individually. By the method of taxation we pay for them collectively, regulating the amount of the individual payment in accordance, not with the services he consumes, but his ability to pay for them. It is because we pay for them in this way—collectively or socially—that some of them are called social services. None the less they are enterprises—social enterprises—and must be taken into account in estimating the degree of economic activity carried on by governmental bodies.

### GOVERNMENTAL INTERVENTION

It would take up too much space to discuss in detail the activities of an economic character carried on by each of the Government Departments, and by the various councils and commissions that have been specially set up. A few of them may, however, be mentioned to convey an impression of the wide range of activities covered.

The *Board of Trade*, for example, is concerned with many responsibilities in connection with tariff policy, trade relations with overseas countries, company law, maritime law, and the regulation of public utilities.

Closely connected with it is the *Overseas Trade Department*, which is concerned with the promotion and development of overseas trade and the dissemination of commercial intelligence.

*Export Credits Guarantee Department.*—"This Department was founded shortly after the war for the

purpose of insuring for British exporters on a short-term basis their business with certain countries where the credit risks involved were considered to be very high—higher in fact than established financial institutions were disposed to regard as legitimate business risks. For many years the Department dealt principally with Russian business, but its scope has, in the course of time, been greatly enlarged as regards the countries covered, the length of credits eligible for guarantees in certain circumstances, and the contingencies against which credits may be guaranteed. . . .

“The Department has, in the course of years, accumulated a substantial reserve out of profits. This has been paid into the Exchequer, but is recoverable in case of need. . . . There is no doubt that the principal reason for the Department’s success has been the exceptional commercial ability with which it has been run and the extent to which it can spread risks all over the world.”<sup>1</sup>

The *Ministry of Transport* was created in 1919 “for the purpose of improving the means of, and the facilities for, locomotion and transport”, and it now exercises great responsibilities in that connection, to which has been added, in April 1937, the control of 4,500 miles of major roads transferred to the Ministry by the Trunk Roads Bill.

The *Ministry of Mines* performs important functions in connection with the organisation and regulation of the mining industry.

*Other Agencies.*—There are certain productive agencies of the Government such as the dockyards and other manufacturing establishments of the War Departments, the Office of Works, The Royal Mint, the Commissioners of Crown Lands, the Stationery

<sup>1</sup> P.E.P. Report on International Trade, May 1937.

Office and the State Management Districts under the Licensing Act, 1921.

A number of other agencies set up by the Government, which indicate the growth of State responsibility for guidance and supervision in the economic field, may be briefly referred to. In 1910 the *Development Commission* was constituted "to consider application for advances for the purpose of aiding and developing agriculture and rural industries; the reclamation and drainage of land; the construction and improvement of fishing harbours . . . and for other purposes of economic development".<sup>1</sup>

In 1916 the *Department of Scientific and Industrial Research* was created "to encourage industry to look on scientific research . . . as an essential part of the business of production", and to "provide technical assistance in the improvement of efficiency previously unobtainable."<sup>2</sup> In 1925 the *Food Council* was established "to watch over the price of food and kindred matters". In the same year the *Imperial Economic Committee* was set up "to complete investigations into the possibility of improving the methods of preparing for market and marketing within the United Kingdom the food products of the overseas Empire, to undertake enquiries into the production for export and the marketing in various parts of the world of the raw materials of the Empire". The Committee has recently taken over the services formerly carried out by the Empire Marketing Board.

In 1930 the Government created an *Economic Advisory Council* "to advise the Government on

<sup>1</sup> *Constitutional Year-Book*.

<sup>2</sup> Cmd. 3989. Report of the Department of Scientific and Industrial Research.



economic matters; and to make continuous study of developments in trade and industry and in the use of national and imperial resources; of the effect of legislation and fiscal policy at home and abroad, and of all aspects of national, imperial and international economy with a bearing on the prosperity of the country".<sup>1</sup>

Other bodies which may be mentioned are the *Corporation of Trinity House*, which administers the lighthouse service and meets the cost out of a fund maintained by a levy on shipping using the ports in the United Kingdom; and the *Unemployment Assistance Board*, which administers Public Assistance to the able-bodied unemployed not entitled to insurance benefit.

*The Ministry of Agriculture and Fisheries* has added greatly to its responsibilities in recent years as a result of the setting up of Producers' Marketing Schemes, which will be referred to later.

*The Forestry Commission* was set up in 1919 as a result of our war experience of the difficulty of allocating sufficient shipping tonnage for the import of timber. There are nine members of the Commission appointed by the Government, of whom one must be a member of Parliament responsible for answering questions in the House. The function of the Commission is to develop afforestation in Britain, so that the home-grown supply of timber may be increased. The Commission has close upon one million acres of land, upon which there are now 197 forests, covering over 350,000 acres.<sup>2</sup> Plans have been made for the planting of an additional 220,000 acres.

Most of the work is done by forest workers, who also

<sup>1</sup> *Constitutional Year-Book*.

<sup>2</sup> Seventeenth Annual Report of the Forestry Commissioners. H.M. Stationery Office. 9d.

occupy holdings under tenancy from the Commission. At the end of 1936, 1268 forestry workers' holdings had been established. In addition to this there were 1097 agricultural holdings, 163 foresters' houses, 462 other cottages, and 2500 other tenancies, including residential, sporting, site rents, dues, etc.

The Commission is very largely dependent upon Exchequer grants for the development of its work. Since 1920 its total income has been £9,883,704 and of this £7,876,000 has been provided by Parliamentary votes.

*Subsidies.*—The granting of subsidies is another aspect of governmental intervention which must be recorded. In a written Parliamentary reply, Lt.-Colonel John Colville, Financial Secretary to the Treasury, stated that subsidies paid, and estimated to be paid, from the Exchequer to agriculture and industry, from October 1st, 1931, to March 24th, 1937, amount to £38,786,000, divided as follows:

Beet sugar . . .	£17,720,600
Cattle (to producers) . . .	9,921,400
Milk . . .	4,996,400
Herring . . .	78,000
Tramp shipping . . .	3,998,300
Civil aviation . . .	2,018,200
Light horse breeding . . .	39,000
Mechanical transport . . .	13,000

Among the *Social Services* undertakings there is, for example, the great national enterprise of Education, carried on under the direction of the *Board of Education*, which was established in 1899. There is the vast public enterprise of the *Ministry of Health*, established in 1919 and carrying out its wide responsibilities relating to the health of expectant and nursing mothers and children under five, the medical inspection and treatment of children and young

persons, the powers under the Midwives Acts of 1902 and 1918, certain health duties relating to factories and workshops, the supervision of water undertakings, Public Assistance, Housing and Town Planning, National Health Insurance and Pensions.

*Housing* is another striking example of how in the exercise of ordinary departmental duties there is a considerable intervention of governmental agencies in economic affairs.

“The number of houses built since the Armistice up to 31st March 1937 was 3,328,398, of which 932,824 were built by Local Authorities, 423,723 by private enterprise with State assistance, and 1,971,851 by private enterprise without such assistance.”<sup>1</sup> The amount of Government contributions paid in respect of subsidy during the same period was the vast sum of £178,000,000. It will be remembered also that in addition to this public enterprise in the building of houses there are still in force the Rent Restrictions Acts. These Acts are of a temporary nature, designed to protect tenants against rising rents as a result of the housing shortage. The present provisions expire in June 1938, but a Departmental Committee was set up last year (1937) to consider the future provisions to be made in this matter.

*The Ministry of Labour*, created in 1916, embraces another network of responsibilities including the administration of the Trades Board Act, the Labour Exchanges and Unemployment Insurance.

*Insurance*.—With the exception of the Health, Unemployment, and Pensions Insurance schemes the foregoing might be classified as Budgetary undertakings of the Government which influence, or impinge

<sup>1</sup> Eighteenth Annual Report of the Ministry of Health.

upon economic affairs, or constitute definite intervention by the Government in those affairs. The Insurance schemes are of course vast undertakings of a semi-Budgetary character. They are compulsory upon the employers and workers, where wages are below a certain level; they are contributed to by workers and employers, and by the Government out of ordinary Budget revenue.

In 1935 there were in Great Britain over 18 million persons insured under the National Health Insurance Acts and the accumulated funds at the end of the year were over £133 million.<sup>1</sup> The National Health Insurance (Juvenile Contributors and Young Persons) Act, 1938, has now brought within the scope of the scheme all boys and girls who take up insurable employment before reaching 16 years of age.

The Unemployment Insurance Acts covered, in 1936 in Great Britain, 13,980,000 insurable work-people. To that figure must be added some 600,000<sup>2</sup> agricultural workers to whom the Insurance scheme was extended in May 1936. These are therefore State enterprises of great magnitude and importance.

*Financial Policy Control.*—Far more important to the general economic welfare of the country is the direction of financial policy. In this sphere there has been in recent years a very great extension of Government responsibility. Ever since the Great War there has been a close partnership between the Treasury and the Bank of England, particularly in regard to the control of the fiduciary issue. Since the abandonment of the Gold Standard in 1931, responsibility for financial policy has passed almost entirely to the

<sup>1</sup> Cmd. 5353. Statistical Abstract for the United Kingdom.

<sup>2</sup> *Ibid.*

Government, with the Bank of England acting virtually as its agent. "We have now a highly co-ordinated monetary system. The few great commercial banks work in harmony with the Central Bank, and all, in matters affecting trade and industry as a whole, act under such general directions as the Treasury may find it advisable to give."<sup>1</sup>

The power and responsibility of the Government has been further increased by the setting up of the *Exchange Equalisation Fund* in 1932. Under the statutory conditions governing this account the fund is invested, under the control of the Treasury, in securities (including foreign exchange) or in the purchase of gold in such manner as they think best adapted for checking undue fluctuations in the exchange rate of sterling. The original amount placed at the disposal of the Fund was £150,000,000. In 1933 this was increased to £350,000,000, and on June 25th, 1937, to £550,000,000. By the use of these powers, over the Central Bank operating a managed currency and the funds at its disposal in the Exchange Equalisation Fund, the Government is now able to give greater elasticity to our monetary system and to ward off or correct fluctuations which "had they occurred under gold standard conditions would have led to grave disturbances of our internal situation".<sup>2</sup>

*Foreign Investment.*—In recent years the Government has "virtually assumed control of the volume of foreign investment, ostensibly for the purpose of protecting the currency. The control has been quite informal and depends upon the goodwill of individuals

<sup>1</sup> Rt. Hon. Reginald M'Kenna, *Midland Bank Review*, January-February 1937.

<sup>2</sup> Mr. M'Kenna.

and institutions in the City of London in respecting the 'advice' which is given them by the Treasury. It must be admitted, however, that the Treasury has also a certain informal ability through its influence with the Bank of England and the Stock Exchange Committee to make things unpleasant for dissentients." <sup>1</sup>

*Import and Export Trade.*—The imposition of a general tariff in 1931 and the setting up of the *Import Duties Advisory Committee* to hear applications and complaints and to recommend variations has, more than any other single step, involved the Government in a wide intervention in economic affairs. The granting of tariff protection to any industry carries with it the responsibility of seeing that the development of the industry on efficient lines is not checked but encouraged. In the debates in the House of Commons this view has been accepted by the responsible Ministers, but it would take us too far from our subject to discuss the extent to which the Government's obligations have been satisfactorily carried out. Following upon the introduction of the Tariff policy, efforts have been made by the Government, with considerable success, to expand our export trade by means of the Ottawa agreements and the trade agreements entered into with many foreign countries.

### NATIONALISED CONCERNS

Apart from these Budgetary or Semi-Budgetary undertakings there is a group of fully nationalised trading concerns which lend themselves much more clearly to this classification.

<sup>1</sup> P. E. P. Report on International Trade, May 1937.

*The Post Office.*—The Post Office was first established in the reign of Charles I as a mail-carrying organisation and until 1840 its charges were levied according to the services it gave in each transaction. In 1840 the principle of a uniform charge for each class of service, whatever the distance, was introduced. Since then the Post Office has extended the services it renders to a much wider field, which will be familiar to the reader. Until 1933, however, its initiative as a public enterprise was hampered and restricted under arrangements by which the whole of its revenue was handed over intact to the Treasury, and its expenditure was voted by Parliament on the annual estimates. It was in fact treated like all the other Departments of State which do not engage in revenue-producing activities. Under the influence of modern developments the Bridgeman Committee recommended that this practice should be discontinued, that the Post Office should pay a fixed annual amount to the Treasury, and that any surplus over this amount should be held to the credit of the Post Office in a special fund.

The Post Office was not granted such full financial autonomy in the Finance Act of 1933 which dealt with the matter, but it has been given much greater freedom from Treasury control and is now treated more as a Government-owned business enterprise, which it is, and less like an ordinary non-revenue-producing Department of State.

But the organisation of the Post Office still bears all the marks of its origin. Its head is a Cabinet Minister responsible for answering any question with regard to the activities of the Post Office that Members of Parliament care to put in the House. This direct power of criticism and interference is probably irk-

some to the business management, but the Post Office plays such an intimate and important part in the life of the nation that some form of public expression of grievances could hardly be dispensed with. For it should be remembered that, in addition to the Postal Telegraph and Telephone services, and the Post Office Savings Bank, the Post Office performs a wide variety of services for the Government, including the payment of pensions, the issue of licences for dogs, guns, motor vehicles and wireless sets, and the sale of Unemployment and Health Insurance stamps.

For its combined services the Post Office employs a total headquarters and industrial staff of 245,851 persons. In the year 1934-35 the Post Office income was over £76 million and its expenditure over £64 million, leaving a surplus of over £11 million.

*The Central Electricity Board.*—This Board, controlling the whole of the generation and transmission of electricity, must also be included as a State undertaking. There is another authority concerned with electricity planning called the Electricity Commission. This is really the parent body which was appointed under the Electricity Supply Act of 1919. Throughout a period of six years, the Commission gained experience of the nature of the problem, and, when the Electricity Supply Act of 1926 was passed, the Commissioners were instructed to prepare a scheme of generation and transmission for each of the zones into which the country is divided.

The Central Electricity Board was set up under this 1926 Act as an executive body for the operation of the scheme. "The functions of the Electricity Commission may conveniently be divided into the planning,



judicial, and regulatory aspects of its work, whereas the C.E.B. is primarily the executive agency by means of which the scheme of interconnection and bulk transmission will be carried out.”<sup>1</sup> The Board has power to borrow for certain specific purposes: (a) the construction or acquisition of main transmission lines or generating stations, (b) any other payment or any permanent work which the Board is authorised to assume and which the Commissioners decide should be spread over a term of years. The Treasury *may* guarantee the payment of interest and principal of any loan, but has not done so.

Taking into account the generating stations as well as the grid transmission lines, the position is that of the capital employed the Board has provided £30,000,000, while there is about another £100,000,000 of private capital invested in the 130 selected power stations which are controlled by the Board.<sup>2</sup> In this case, therefore, we have nationalised *control* without full national ownership. The Board raises its own capital on the open market and provides for interest and sinking funds but does not make a divisible profit.

The Grid is the network of transmission lines connecting the larger generating stations and linking up with the supply undertakings. These transmission lines are about 4000 miles in length.

The Board, composed of seven members and a chairman, is appointed by the Ministry of Transport, but, in making the appointments, the Minister takes into con-

<sup>1</sup> Marshall E. Dimock. *British Public Utilities* (p. 211). (Allen & Unwin, 1933.)

<sup>2</sup> See article by Graeme Haldane in *Public Enterprise*, edited by W. A. Robson. (Allen & Unwin, 1937.)

sultation bodies representing the different interests, *i.e.* local government, the electricity industry, commerce, general industry, transport, agriculture, and labour. The members of the Board are appointed for not less than five years, not more than ten years, and are paid a remuneration fixed by the Ministry of Transport. The Board possesses definite powers which ensure to it a very considerable independence, subject to certain safeguards exercised through the Electricity Commissioners. An Annual Report is laid before Parliament and the Minister of Transport answers questions within his discretion, but there is no interference with the day-to-day conduct of the industry.

At the time of writing a scheme is under consideration by the Government for the extension of public control to the electricity supply industry, but the nature of this provisional scheme places it nearer to the category of public utility undertakings and it is dealt with below under that heading.

*The British Broadcasting Corporation.*—The Corporation was created by Royal Charter in January 1927—taking over, at that date, from the British Broadcasting Company, Ltd., which was a joint-stock company. This charter was granted for a period of ten years ending at December 1936, and since then the terms of a new charter have been approved. The British Broadcasting Corporation is a public-owned national organisation managed by an independent public board. It is a completely socialised service. There are no shareholders with proprietary rights and the whole of its surplus income must be applied to the improvement of its service. The charter is

supplemented by a licence issued by the Postmaster-General, who can be held responsible for general policy, but the Corporation is in a position "of independence in the day-to-day management of its business". The seven governors of the B.B.C. are appointed by the Crown.

Although the B.B.C. is not permitted, and has no need, to make profits, a considerable proportion of the income from listeners' licences has in the past been appropriated by the Government.

"During the eight calendar years 1927 to 1934 the total income collected from licences was £16,761,000 of which only £8,788,000 (52·43 per cent) went to the B.B.C., £1,836,000 (10·96 per cent) went to the Post Office (this was in payment for the collection of listeners' licence fees by the Post Office), £4,963,000 (29·61 per cent) to the Exchequer . . . £575,000 (3·43 per cent) to the Treasury as 'emergency contributions', £568,000 (3·39 per cent) to the Exchequer as income tax."<sup>1</sup>

A new arrangement has now been made, however, under which out of the income from licences the net revenue going to the B.B.C. will not be allowed to fall below 75 per cent, and the proportion may, in certain circumstances, be greater than that.

From time to time there has been violent criticism of the B.B.C., but it is generally agreed, even by the critics, that this experiment in the independent management of a socialised concern has been highly satisfactory and successful.

*Coal-Mining Royalties.*—At the time of writing, a Government Bill for the nationalisation of coal-

<sup>1</sup> W. A. Robson, *Public Enterprise*, p. 97.

mining royalties is passing through Parliament. Ownership of the royalties is to be acquired at the total price of £66,450,000, which was fixed by an Arbitration Court in April 1937. As there are between 4000 and 5000 individual royalty owners, it has been assumed that at least three years' preparatory work will be required before the transaction can be completed. The valuation date, for the valuation of each individual holding, is to be January 1st, 1939, and the vesting date July 1st, 1942. A statutory body to be called the Coal Commission will take over the ownership of all the coal of the country.

"The Commission shall not themselves engage in the business of coal-mining or carry on any operations for coal-mining purposes, other than searching and boring for coal, but shall be charged with the duty of controlling and managing the premises acquired by them under this part (Part I) of this Act, by granting coal-mining leases and otherwise, in such manner consistently with the provisions of this Act as they think best for promoting the interests, efficiency, and better organisation of the coal-mining industry."<sup>1</sup>

### MUNICIPAL ENTERPRISES

The social and trading enterprises undertaken by Local Authorities present the same difficulty as the functions undertaken by the central government regarding where the line should be drawn. Everything they do is, of course, in the broader sense of the term, part of the economic activity of society. But some of these activities, the trading services in particular, are definitely functions which have formerly been, or in the absence of municipal undertakings, would, be

<sup>1</sup> Clause 2 of Part I of the Bill.

performed by private enterprise. The range of Local Authorities' activities<sup>1</sup> includes gas undertakings, electricity supply undertakings, tramway services, banks, harbours, docks, piers, canals, waterworks, markets, cemeteries, small holdings and allotments, housing, education, libraries and museums, sewers and sewage disposal, collection of house and trade refuse, hospitals, sanatoria, dispensaries, maternity and child welfare clinics. Baths, washhouses, parks,

**TRADING SERVICES OF LOCAL AUTHORITIES\***  
(England and Wales only)

	Gross Receipts apart from Rates and Grants	Expenditure	
		Other than Out of Loans for Capital Works	Out of Loans for Capital Works
	£	£	£
Cemeteries . . .	1,198,080	1,643,000	219,839
Markets . . .	2,461,958	2,042,000	107,511
Waterworks . . .	19,022,824	20,157,000	3,705,009
Gasworks . . .	16,051,127	16,121,000	1,181,111
Electricity supply .	37,481,810	36,553,000	11,434,085
Transport (tramways), etc. . . . .	22,280,544	22,345,000	11,124,716
Harbours, docks, piers, canals, and quays .	12,162,010	12,505,000	1,305,919
Other trading services, (including Corpora- tion estates and ferries) . . .	3,673,313	3,635,000	905,438

\* The figures for Scotland (not included here) are given in a different form, but show a similar magnitude in relation to population.

pleasure grounds and open spaces, lunacy and mental deficiency (indoor and outdoor care), relief of the poor, highways and bridges maintenance, public lighting of streets, fire brigades, police, and administration of justice.

The above services are classified by the Local

<sup>1</sup> In some of these services, Education and Housing for example, the Local Authorities are partners with the State in that they have to provide the rate-borne part of the expenditure.

Authorities, and in all the official reports, as trading services. It is these trading undertakings that are of particular interest for our purpose. Their size and economic and social importance can be gathered from the following figures of the income and expenditure in respect of municipal trading services in 1933-34 given on opposite page.

In the *Liberal Industrial Inquiry* published in 1928 it is reported that "Local Authorities are now responsible for operating nearly £700 million worth of revenue earning capital plant".<sup>1</sup>

The following table, taken from the same report, gives an estimate of the value of the capital at that date:

**PUBLIC UTILITY UNDERTAKINGS OWNED BY  
LOCAL AUTHORITIES**

	Total Number of Public Under- takings	Number of these in Hands of Local Authorities	Value of Capital Plant	
			No. Included	Value
(a) Gas . . .	782	317	317	£62,650,000
(b) Electricity . .	563	338	338	125,310,000
(c) Tramways, etc.	235	168	168	81,780,000
(d) Water* . . .	1236	977	977	148,060,000
(e) Housing* . . .	?	1568	1568	219,490,000
(f) Miscellaneous . .	?	?	79	38,200,000

\* England and Wales only.

"These particulars are taken partly from the *Stock Exchange Official Intelligence*, partly from the *Eighth Annual Report of the Ministry of Health*, partly from information supplied directly by the Ministry of Health, partly from other official returns, and partly from *Public Administration*, vol. iv. p. 298."<sup>2</sup> The last mentioned, which is the Journal of the Institute

<sup>1</sup> *Britain's Industrial Future*. (Ernest Benn, Ltd., 1928.)

<sup>2</sup> *Ibid.* p. 68

of Public Administration, contains much material bearing on the subject-matter of this chapter.

In the case of public service undertakings, such as gas, water, electricity, and tramways, which are run by local authorities, profits are restricted by limiting the amount which can be used in relief of local rates.

Since the table taken from the *Liberal Industrial Inquiry*<sup>1</sup> was compiled, there have been considerable extensions of public ownership and statutory control of the public services referred to, as the following details will show.

*Electricity.*—The *Municipal Year-Book* for 1937 defines the economic importance of the Electricity Supply industry in the following terms:

“Now nearly fifty years old, the Electricity Supply industry has absorbed in Great Britain alone a capital of over £466 million; the public generating stations have a capacity of over 7,800,000 kilowatts, producing over 13,900 million units per annum for over 6,000,000 customers; the annual revenue from the sale of electrical energy is over £65,300,000, yielding a surplus of over £35,800,000; the amount paid annually in local rates by the undertakings is £4,447,987; the numbers directly employed in the industry are over 74,000, and the annual salaries and wages over £11,450,000.”

The number and nature of authorised undertakers in Great Britain holding powers to supply electricity is shown in the table on the opposite page.

Of the 12,781,579,919 units sold in 1934, Public Authority undertakers sold 8,049,132,775 and company undertakers 4,732,447,144. That is to say, that

<sup>1</sup> *Britain's Industrial Future.*

about two-thirds of the total was supplied by Public Authorities.

The actual paid-up capital of Local Authorities electricity supply undertakings supplied out of loans (including Joint Electricity Authorities) at March

**AUTHORISED UNDERTAKINGS IN GREAT BRITAIN**  
(March 21st, 1935)<sup>1</sup>

Undertakers	Number holding Statutory Powers in		Total
	England and Wales	Scotland	
Joint Electricity Authorities . . . . .	3	..	3
Joint Boards (representative of Local Authorities) . . . . .	4	1	5
Local Authorities . . . . .	336	35	371
Companies and persons . . . . .	220	32	252
	563	68	631

21st, 1935. is now given in the *Statistical Abstract*<sup>2</sup> as £245,820,000. Of this amount £101,643,000 of the loans had been redeemed, leaving a net capital liability of £144,177,000.

*Gas.*—The development of public ownership has not perhaps been so extensive as in Electricity.

“The local authority is not bound to provide a gas supply, and in no case can a municipal supply be started to compete with that of a Company exercising statutory powers, though a local authority, like a private individual, may manufacture the gas required for use in its own premises and buildings.”

But “where gas in the area is supplied by a statutory

<sup>1</sup> Later figures given by the Committee on Electricity Distribution which reported on June 25th, 1936, show that there are now 373 undertakings owned by Local Authorities and 253 by companies and persons.

<sup>2</sup> Eightieth Statistical Abstract of the U.K. H.M. Stationery Office.



company, the Local Authority has the rights and powers:

1. To apply for a revision of the standard or maximum price.
2. To appoint a gas examiner.
3. To be furnished with a copy of the annual accounts.
4. To withhold consent to an application for an increase in the authorised share or loan capital of a statutory company under Section 1 of the Gas Undertakings Act, 1929.”<sup>1</sup>

In this case also, we find that the powers of public supervision and control are far more extensive than the actual degree of public ownership of undertakings—extensive as that is—would suggest.

The paid-up capital of Local Authorities’ gas undertakings in 1934 (later figures not available) was as follows:

Loans . . . . .	£79,422,000
Less Loans repaid and balance in Sinking Fund . . . . .	51,800,000
Net capital liability . . . . .	£27,622,000

*Small Holdings.*—In addition to these services, the ownership by Local Authorities of Small Holdings is worth mentioning. At December, 1935, local Councils throughout the country held over 459,000 acres of land for the purpose of small holdings. The number of holdings was 29,071. Over 600,000 allotments have been provided by Local Authorities upon 59,700 acres of land held for this purpose.

In the case of Transport undertakings there have also been changes since the table on page 139 was compiled. The present position is as follows:

<sup>1</sup> *Municipal Year-Book*, 1937.

*Tramways.*—Out of 98 Tramway undertakings in Great Britain (*i.e.* excluding L.P.T.B. Tramways) in the year ending March 31st, 1936, 78 were owned by Local Authorities and 20 by companies. The total paid-up capital of the Local Authorities in these undertakings was £63,020,766, of which £43,666,608 had been redeemed or set aside for redemption, leaving a net capital liability of £19,354,158. The net income from tramways to the Local Authorities was £3,224,460.<sup>1</sup>

*Trolley Vehicle Undertakings (1935-6).*—Out of 55 trolley-vehicle undertakings in Great Britain (not including the L.P.T.B.) 50 were owned by Local Authorities and 5 by companies.<sup>2</sup>

*Municipal Aerodromes.*—At September 30th, 1937, there were 31 towns with municipally-owned aerodromes, 9 with aerodromes under construction, and 11 which had purchased sites.<sup>3</sup>

### STATUTORY UNDERTAKINGS

Apart, however, from the undertakings shown in the table as being owned by the Local Authorities, it should be remembered that, where they are owned by private companies, these companies are invariably classed as "statutory undertakers". This is defined in the Public Health Act, 1936, section 343, as meaning "any persons authorised by any enactment or statutory order to construct, work or carry on any railway, canal, inland navigation, dock, harbour, tramway, gas, electricity, water, or other public undertaking". The powers and obligations of statutory undertakings are strictly defined by Parliament and may include determination of the quality of the service or supply,

<sup>1</sup> *Municipal Year-Book*, 1938, p. 92.

<sup>2</sup> *Ibid.*, p. 93.

<sup>3</sup> *Ibid.*

the amount of capital to be employed, limitation of the return on capital to be permitted, and limitations upon the rates to be charged for their services.

Persistent enquiries at official as well as unofficial sources have failed to produce any comprehensive list of statutory undertakings. Some 400 undertakings are, however, listed in the *Stock Exchange Year-Book* for 1938. They include railway, light railway, canal, dock, harbour, and ferry companies; pier, bridge, markets and fairs, and hydraulic power companies; electricity, gas, and water companies, and omnibus and other road transport companies.

*Catchment Boards, etc.*—In the *Local Government Manual and Directory*, 1937, a list is given of 49 Catchment Boards, 22 Commissioners for Sewers, and 350 Drainage Boards and other Drainage Authorities. These are mentioned merely to give an impression of the wide range of public supervision for which details cannot be given in this brief survey.

### PUBLIC TRUSTS

The Central Electricity Board and the British Broadcasting Corporation have been included with the Post Office as fully nationalised concerns. It may be doubted whether they differ sufficiently from the concerns that are now to be mentioned to justify the separation. The point is not very important for our purpose here, which is merely to convey an impression of the extent of public ownership and management and the variety of forms of organisation that have been adopted to suit the needs of different services.

*Harbours and Docks.*—Of the 330 Harbours and Docks in Great Britain approximately 110 are owned and operated on public utility lines like the Port of

London Authority; 70 are owned and operated by Municipal Authorities, 50 by railway companies and 100 by harbour companies or individuals. That is a total of 180 concerns coming directly under one form or another of public ownership and control.<sup>1</sup> The ten principal ports are at London, Liverpool, Glasgow, Newcastle-upon-Tyne, Belfast, Southampton, Hull, Harwich, Manchester, and Bristol. The first five—London, Liverpool, Glasgow, Newcastle-upon-Tyne, and Belfast—come under the management of public trusts; the Manchester port is managed by a mixed company—the Manchester Ship Canal Company—on which the municipality has a legal majority of one director. The Bristol port comes under the direct management and control of the municipal corporation; Southampton, Hull, and Harwich are managed by the railway companies.

*The Port of London Authority* may be taken as an interesting example of representative control. The authority was created by Act of Parliament in 1908 and is composed of elected and appointed representatives of the following interests:

*Elected* (18)

By payers of dues, wharfingers, and owners of river craft .	17
By wharfingers . . . . .	1

*Appointed* (10)

By the Admiralty . . . . .	1
By the Ministry of Transport . . . . .	2
By the L.C.C. (2 Council members and 2 non-Council members) . . . . .	4
By the City Corporation (1 member of the Corporation and 1 non-member) . . . . .	2
By the Trinity House . . . . .	1
Total . . . . .	<u>28</u>

<sup>1</sup> Figures taken from the Final Report of the Royal Commission on Transport. 1931.

Two of the members appointed by the Ministry of Transport and the L.C.C. are chosen after consultation with organisations representative of Labour.

The authority has wide powers and responsibilities; "as a quasi-governmental authority it registers and licenses river craft, houseboats and lightermen and watermen; as a river conservancy it maintains and improves the channel, removes wrecks, formulates by-laws for navigation, licences the construction of works by other entrepreneurs, ensures the river's flow and purity, and undertakes surveys; as a commercial enterprise, finally, it administers and improves the dock and warehousing system of the former companies, constructs new facilities, and may acquire existing facilities not already within its control."<sup>1</sup>

The authority enjoys a great measure of financial autonomy. By its powers to raise capital on the open market it is able to make use of conversion operations to adjust its interest charges. Great schemes of improvement, extension, and development of new facilities have been carried through "and steady progress has been maintained with ultimate redemption of stock through sinking funds which will leave the port in 1999 with much of its relatively imperishable capital free of charge".<sup>2</sup>

*The London Passenger Transport Board.*—I am including the L.P.T.B. under the heading of public utilities, but there are equally good reasons why it might have been included among nationalised enterprises. However, the L.P.T.B. is not national in the scope of its activities, and it is burdened with greater

<sup>1</sup> Lincoln Gordon in an article on "The Port of London Authority", in *Public Enterprise* (p. 47).

<sup>2</sup> *Ibid.*

original fixed capital liabilities than concerns like the B.B.C. and the Electricity Board. On the other hand it is free from shareholders' control, and from the principle of earning a divisible profit above its fixed interest charges.<sup>1</sup>

The L.P.T.B. took over control of London's transport on July 1st, 1933. The competitive development of various forms of transport prior to that date had led to waste, overlapping, and confusion. All the separate undertakings and forms of transport were co-ordinated under the unified control of the L.P.T.B. with the object of bringing about a planned system of transport developing to meet the needs of the public at the lowest possible cost.

The Board consists of a chairman and six other members, all of whom are appointed by appointing trustees. The appointing trustees are: the Chairman of the London County Council, a representative of the London and Home Counties Traffic Advisory Committee, the Chairman of the Committee of London Clearing Banks, the President of the Law Society, and the President of the Institute of Chartered Accountants. These appointing trustees appointed the original Board and are responsible for future appointments to fill vacancies as they occur; they serve as a buffer between political interests and the L.P.T.B. The Chairman of the L.P.T.B. receives a fixed salary of £12,500 per annum, the Vice-Chairman gets £10,000, and each other member of the Board £750 per annum.

<sup>1</sup> "The 'A', 'TFA', 'LA', and 'B' Stocks are all full trustee securities ranking in this order both as regards capital and charge on revenue. The 'C' Stock ranks last, but corresponds to an equity stock inasmuch as interest can vary within the standard rate and to the extent of an additional  $\frac{1}{2}$  per cent according to earnings" (*Public Enterprise*, p. 188).

The area within which the L.P.T.B. has the duty to provide an adequate and planned system of passenger transport comprises 1986 square miles. Within that area there are 1550 square miles in which the L.P.T.B. exercises a monopoly. The Board took over 17 tramway, 62 omnibus, 4 coach, and 4 subsidiary undertakings operating within the area. A system of co-ordination with the suburban services of the railway system has also been established and is controlled by a standing joint committee of the L.P.T.B. and the four railway companies.

The financial basis upon which the various privately owned transport undertakings in the area were transferred to the L.P.T.B. is described by the formula "net maintainable reasonable revenue". That is to say that the holdings of shareholders in the privately owned undertakings were to be purchased by the issue to them of an amount of L.P.T.B. Stock, bearing fixed rates of interest which would bring in to the owner an income equivalent to that formerly derived from his holdings in the privately owned concerns.

The actual terms of transfer were negotiated by an arbitration tribunal appointed by the Lord Chancellor, and the L.P.T.B. Stocks (with the exception of the Local Authorities Stock) became negotiable on the London Stock Exchange. After the transfer, however, general interest rates were falling and the result was a considerable appreciation of the value of L.P.T.B. Stock. This made no difference to the amount of interest to be paid by the Board, but it enabled holders of stocks who wished to do so to sell them at a price considerably above their assessed value at the date of transfer. The charge is therefore being made that the terms of transfer were over-generous and that the

burden of fixed interest charges might have been much lighter, leaving a larger margin for the cheapening or improving of services to the public and for improving the wages and conditions of employees of the Board.

It is not necessary to our purposes, and it would occupy too much space, to deal with this particular controversy here. It has been mentioned merely in order to note that in the setting up of a public utility, which has to take over existing highly developed private concerns, great care must be exercised lest the new public utility becomes over-burdened with capital charges which might militate against the satisfactory fulfilment of the functions it is created to serve. But whatever view we may take of the capital liabilities imposed upon the L.P.T.B., there can be no doubt that, as a result of its co-ordination and direction of London Transport development, a much higher degree of efficiency has been secured to the benefit of the travelling public.

*Public Utility Water Boards.*—"In 1902 the water supply of metropolitan London was transferred from private companies to the Metropolitan Water Board, a public utility Trust form of organisation. The number of such Boards is not less than *fourteen*, representing an aggregate capital of £69,730,000."<sup>1</sup>

*Mixed Undertakings.*—A reference should also be made to the Manchester Ship Canal as an example of a mixed undertaking. It is owned as to one third of its capital by the municipality and as to two thirds by the private investors. Nevertheless, a majority of the

<sup>1</sup> *British Public Utilities and National Development*, p. 28, by Marshall E. Dimock, Ph.D. (Allen & Unwin, 1933.)



directors must be chosen from the Municipal Council to represent the public interest, and the remainder are appointed by the private interests. The chairman is chosen by the directors appointed by the private shareholders, and the deputy chairmanship is vested in the Manchester Corporation. Other mixed undertakings are the Southampton Ship Canal, and Sheffield local transport.

*Railways.*—It was in connection with the regulation of British Railways that we gained most of our early experience, upon which are based the principles of public utility regulation that now apply to many other public service undertakings.

“The period of railway experimentation during which such exorbitant capital costs were incurred lasted from 1821 to 1844. At the close of this era Parliament was forced to admit that the control of railways was a necessity. Three major phases of railway regulation have occurred since 1844. During the first period 1844–88, the railways were not effectively controlled, but, by 1888, permanent regulatory machinery, the Railway and Canal Commission, had been established. The years between 1888 and 1921 saw the growth of railway unions and the emergence of a movement to nationalise the railways; during the war period the railways were commandeered by the State. The current era dates from the Railways Act of 1921, by means of which the railways were returned to private operation, extensive amalgamations were affected, and new regulatory legislation was enacted. Since 1921 the primary responsibility for regulating railways has been fulfilled by the Railway Rates Tribunal, while the conciliation of labour questions has been entrusted to a hierarchy of tribunals.”<sup>1</sup>

The subject is a most complicated one, but I think

<sup>1</sup> *British Public Utilities*, p. 68.

we shall obtain a sufficient impression of the powers of regulation for our purpose here by quoting a summary given by Mr. Garnham Roper, C.B., at one time an assistant secretary at the Board of Trade, in an article which he contributed to the journal *Public Administration* of October 1926:

"The Minister of Transport has wide powers over Railway Companies in Great Britain; thus, in connection with *safety*, he may, and in certain cases must, order an inspection or an inquiry into accidents; make regulations as to Level Crossings and Bridges; order the adoption of a block system, interlocking of points and signals, and continuous brakes for passenger trains, and require the adoption of various safeguards against dangers incidental to railway service, or excessive hours of employees.

"*Construction*: his certificate is necessary at various stages of construction, and also for the abandonment of works.

"*Accounts*: he may require Companies to furnish him with annual accounts and statistics of their capital, traffic, etc.

"*Facilities*: he may, by Order, require a Company to conform to measures of standardisation or co-operation; or to provide additional workmen's trains; he can in certain cases appoint Arbitrators and Umpires to settle disputes.

"As regards *Charges and Rates*, under the older Acts and Orders, maximum charges were prescribed, but the Railways Act, 1921, set up a new body, the Railway Rates Tribunal, which has power to fix, and to vary actual rates.

"*Wages, etc.*: The same Act established a system of Councils with a Central and a National Wages Board

to deal with disputes, questions of pay or other conditions of employment of railway servants.”<sup>1</sup>

It might be useful also to quote the summary in the same article with regard to *Canals*:

“Canals in this country are, for the most part, privately owned—more than one-third by Railway Companies—but a few belonging to Local Authorities, Conservancy Boards or Public Trusts. Undertakers have generally obtained their powers by Special Acts, but the classification of merchandise, and the present charging powers of most of them are prescribed in Provisional Orders made by the Board of Trade and confirmed by Parliament in 1893–94. Undertakers are required to grant through rates and tolls as a reasonable facility, to give no undue preference, and to keep their undertakings in proper repair. The Minister of Transport may inspect a Canal alleged to be dangerous or a hindrance to traffic, and may authorise its abandonment or, by Provisional Order, its transfer to a Local Authority or a specially constituted body, not being a Railway Company. Byelaws and Regulations made by a Company require his confirmation, and he must be notified of accidents and furnished with certain returns.”

#### OTHER AGENCIES OF PUBLIC CONTROL

*The Wheat Commission.*—This was established in accordance with the provisions of the Wheat Act, 1932, to ensure the efficient administration of the quota scheme for home-produced wheat of millable quality. It is in charge of the arrangements which enable registered growers of millable wheat to qualify for and receive the

<sup>1</sup> Certain modifications of this have recently been agreed between the trades unions and the companies with a view to the simplification of procedure.

deficiency payments provided for by the Wheat Act, and of the collection of quota payments from millers and importers of flour to provide the necessary wheat fund from which deficiency payments are made.

*The Sugar Commission.*—This body was established by the Sugar Industry (Reorganisation) Act, 1936, to advise and assist the Minister of Agriculture and Fisheries in keeping under review the growing of sugar beet, and the manufacture, refining, marketing, and consumption of sugar in the United Kingdom. Fifteen companies operating separate factories are amalgamated by the Act into the British Sugar Corporation, Ltd. The Treasury is empowered to guarantee debentures of the Corporation. A register of all sugar refiners is to be kept, and financial assistance from the Government is to be made available to the Corporation for all sugar manufactured by it from home-grown beet.

The growers of home-grown beet, the Corporation, and every other registered refiner are to contribute towards a fund for research and education. If found necessary and advisable by the Commission, a licensing authority may be set up so that a more adequate control of refining and marketing may be maintained to achieve efficiency in the public interest. But, before a licensing scheme is inaugurated, it must be publicly advertised and facilities provided for public objection. An Annual Report must be submitted by the Sugar Commission to the Minister, and this report must include financial statements in a form which the Act defines.

*The "Spindles" Board.*—The Spindles Board was set up under the Cotton Spinning Industry Act, 1936. The purpose of this Act is to provide for the elimination of redundant spinning machinery in the cotton

mills of Great Britain. A Chairman and two other members are appointed by the Board of Trade after consultation with the industry. During a period of two years—which may in certain circumstances be extended for one additional year—the Board is empowered to acquire, by agreement, premises, land, and machinery and to raise loans for this purpose. Cotton-mill owners are to pay the Board a levy according to the spindle capacity of their machinery, and this levy may be imposed for a period of fifteen years. The money obtained from the levy goes into a “spindles fund” to finance the dismantling and disposal of redundant machinery.

*The Coal Mines Reorganisation Commission.*—This body was originally set up under Part II of the Coal Mines Act of 1930. Part I of this Act provided for regulation of the output of coal, the granting of quotas of production to each pit, and the fixation of minimum prices. Under Part II the Board of Trade was required to appoint five Commissioners to further the reorganisation of the coal-mining industry and to promote and assist, by the preparation of schemes and otherwise, the amalgamation of undertakings, where such amalgamations appeared to be in the national interest. The owners were given the opportunity themselves to prepare schemes of amalgamation, but, in the event of their failing to do so within a time to be specified by the Commissioners, the Commissioners were themselves empowered to prepare schemes which, on the approval of the Railway and Canal Commission and the Board of Trade, would become enforceable.

Very little headway was made by the Commission in regard to reorganisation of the industry during the years immediately following its creation. On the one

hand the mineowners did not show any willingness to prepare and carry into effect voluntary schemes of amalgamation, and on the other, the Commission found it very difficult to carry out the intention of Parliament by compulsory means. By 1935 it had prepared a number of schemes for different districts. It decided to proceed first by bringing its scheme for West Yorkshire (which, as a result of compromise, had obtained the support of a large majority of the concerns affected), but the scheme was refused approval by the Court on the ground that it did not carry out the intentions of the Act with regard to amalgamation. Shortly after the issue of this decision the Government asked the Commission to delay further action until it had reviewed the whole position. In February 1936 a fresh Bill was brought before Parliament, with the intention of clarifying the powers of the Commission, and the procedure by which reorganisation of the industry could be effected. The coalowners presented very strong opposition to this measure, and it was eventually withdrawn by the Government. A promise was then given that a fresh Bill would be presented.

The difficulties which confronted the Coal Mines Reorganisation Committee appear to have arisen out of the provisions of the Coal Mines Act. The benefits derived from the regulation of output, granting of quotas, and fixation of minimum prices under Part I of the Act stiffened the resistance of the smaller concerns to amalgamation and made it much more difficult to fulfil the requirements of Part II, which instructed the Commission to secure amalgamations which would "not be financially injurious to any of the undertakings to be amalgamated".

Under the Bill which is now before Parliament the

functions of the Reorganisation Commission are transferred to the Coal Commission, already referred to in connection with the nationalisation of mining royalties. The ownership of royalties vested in the Commission will increase its power to achieve an orderly regulation of the industry. It is further empowered to report to the Board of Trade if in any specified area voluntary amalgamations are not making sufficient progress. The Board of Trade will then lay a draft order before Parliament and, when it has been approved, the Coal Commission will prepare a detailed compulsory amalgamation scheme for the area, for submission to the Railway and Canal Commission. This body will hear the case of the various interests concerned, make any modifications of the scheme which it deems to be desirable in the interests of efficiency, and confirm the scheme, which will then become effective.

*Restriction Schemes.*—There are international restriction schemes in operation among producers of rubber, copper, tin, and tea. These schemes can be operated only with the concurrence and assistance of the governments of the producing areas. The object of the schemes is to regulate by quota the amount exported, and thus attempt to maintain prices at a remunerative level.

*Government Shareholdings.*—Mention should also be made of Government shareholdings, as, for example, of Suez Canal shares, which were valued in 1935 at £93 million, and of Anglo-Iranian oil shares valued at £5 million, as well as a number of other outstanding loans. The Government have certain rights as shareholders to appoint directors to the Suez Canal Co. and the Anglo-Iranian Oil Company.

When beam wireless was invented in 1924 the British Post Office entered into a contract with the Marconi Wireless Telegraphy Co. for the construction of four beam stations in the United Kingdom. These stations came into operation in 1926 and 1927. The Post Office made substantial profits, but it was found that, since the rates charged were lower than cable rates, the cable companies were being badly injured. It was essential, in the interests both of commercial efficiency and of defence, that the cable services should be preserved. In 1928 it was arranged that all cable and wireless undertakings should be merged in a single operating company—Cables and Wireless Ltd.

The new company bought the Government cables for £1,250,000 cash and about another £1,250,000 payable by annuity. It also leased the beam stations from the Government for twenty-five years at a rental of £250,000 a year plus 12 per cent of the surplus profits. During the depression years, the company has been in difficulties and the capital charges have proved too heavy. A new arrangement is now proposed under which Cables and Wireless Ltd. are to be granted the freehold of the beam wireless stations, and the rental is to be cancelled. In return for this concession 2,600,000 £1 shares in Cables and Wireless Ltd. are to be given to the Government. The Imperial Communications Advisory Committee have also been able to arrange with the company for drastic reductions in telegraph rates, and the establishment of uniform charges, between different countries of the Empire.

*Electricity Distribution.*—Proposals were recently outlined by the Government, in a White Paper addressed to authorised undertakers, "for securing the reorganisation of distribution on the general lines recommended



in the Report of the Committee on Electricity Distribution". Under this scheme, the Electricity Commissioners were to be directed to have regard, among other relevant considerations, to the following general principles:

(a) The primary considerations to be taken into account are that a substantial reduction in the present number of undertakings (with the complete elimination of all duplicate powers) is to be effected by the substitution, where appropriate, of larger and more economic units; that the area of supply of each such unit should be sufficiently large to embrace a reasonable diversity of demand and to ensure that future technical development can proceed on comprehensive and economic lines, and should where possible include an appropriate grouping of rural and urban areas; and that the unit should have adequate financial resources for such development.

(b) The schemes are to be based so far as possible on the retention of the larger and more efficient of the existing undertakings.

Where satisfactory reorganisation on such principles is not found practicable, the Electricity Commissioners will be empowered to prepare schemes for a Distribution Authority or for a Joint Board in appropriate cases on the lines of Basis C.

(c) Where the undertaker, to whom other undertakings are to be transferred by a scheme, objects to take such transfer, the Electricity Commissioners will be empowered to prepare a substituted scheme for the setting up of a Distribution Authority covering all the undertakings in the scheme area.

These proposals failed to enlist support and have been withdrawn for reconsideration. It is to be expected, however, that action on some such lines will soon be taken.

*Agricultural Marketing Schemes.*—The Agricultural Register for 1936–37 states that, by the end of 1936, there were sixteen administrative bodies established in the United Kingdom for the reorganisation of the marketing of eight commodities—hops, pigs, bacon, milk, fat stock, butter, cream, and eggs. The schemes for the first four commodities cover a relatively large proportion of the output of these products in the United Kingdom; the scheme for fat stock is confined to the Isle of Man, and those for butter, cream, and eggs cover only Northern Ireland.

The schemes are as follows:

#### MARKETING SCHEMES IN OPERATION IN THE UNITED KINGDOM, 1936

Administrative Body	Country	Date of Operation
Hops Marketing Board .	England	6 Sept. 1932
Pigs Marketing Board .	Great Britain	9 Sept. 1933
Bacon Marketing Board .	" "	" "
Pigs Marketing Board .	Northern Ireland	1 Oct. 1933
Milk Marketing Board .	England and Wales	6 Oct. 1933
Scottish Milk Marketing Board .	Scotland	1 Dec. 1933
Potato Marketing Board .	Great Britain	9 March 1934
Aberdeen and District Milk Marketing Board .	Scotland	1 Aug. 1934
Milk Industry Council .	Northern Ireland	16 Aug. 1934
North of Scotland Milk Marketing Board .	Scotland	1 Oct. 1934
Pig Industry Council .	Northern Ireland	1 Jan. 1935
Milk Marketing Association .	Isle of Man	25 April 1935
Potato Marketing Association .	"	12 June 1935
Fat Stock Marketing Association .	"	25 Oct. 1935
Butter and Cream Marketing Board .	Northern Ireland	5 May 1936
Egg Marketing Committee .	"	10 Sept. 1936

*Other Boards.*—In addition to the above, there was set up, in 1935, a Bacon Development Board “to control new factory construction and extension, to regulate the conditions of operation of bacon factories, to formulate a common policy for the industry, to carry out research and education and, if necessary, to act as arbitrator between the Pigs and Bacon Boards”. [A Bill has now been introduced (April 1938) by the Minister of Agriculture to adapt and vary this scheme and provide for the licensing of bacon factories.]

Under the Herring Industry Act of 1935 a Herring Industry Board was set up which has been carrying out a scheme for the reorganisation, development, and regulation of the herring industry.

A Sea Fish Industry Bill is now before Parliament which would provide for the constitution of a White Fish Commission whose functions would include that of “giving an initial impetus to the organisation of the industry by means of the registration of persons engaged therein and the submission to Ministers of schemes for the various sections of the industry; and in addition the general supervision of any such schemes as may come into operation, and the making of regulations governing the marketing of white fish, subject to confirmation by Ministers and Parliament”.<sup>1</sup>

### CONSUMERS' CO-OPERATION

On December 31st, 1936, there were 7,807,942 individual members of co-operative societies in the British Isles.<sup>2</sup> The number of separate retail societies was 1107. The sales of these societies reached a total

<sup>1</sup> Explanatory Memorandum to the Bill.

<sup>2</sup> *Co-operative Union News Service*, No. 225. Nov. 1937.

of £233,844,350 for the year 1936. The average purchases per member for the year equalled a value of about £30. The number of persons employed by the movement was 319,077, and the wages bill for the year was over £40 million.

“The activities of the consumers’ co-operative societies are not wholly restricted to co-operative trading and manufacture. There is, for example, a co-operative bank, carried on as a department of the Co-operative Wholesale Society. There is also a Co-operative Insurance Society, carried on as a joint department of the English and of the Scottish Co-operative Wholesale Societies. One branch of this insurance society’s business, that of collective life insurance, under which retail societies may insure all their members, both the premiums and the claims being calculated, without any reference to the insured persons’ state of health, on the amount of their *purchases*, is especially noteworthy as illustrating the cardinal principle of consumers’ co-operation, that of dividend on purchases.

“By far the greater part of the total production of co-operative societies in Great Britain is carried on by consumers’ societies (including the wholesale societies); but there are also a number of productive societies formed and carried on primarily in the interests of the workers employed by them. The diverse ideals represented by these two distinct types of society have been present throughout the history of the movement.”<sup>1</sup>

In 1935, there were, according to the 22nd Abstract of Labour Statistics, 982 retail, wholesale, and productive co-operative societies in Great Britain engaged in production. They employed 98,787 persons on production alone; the salaries and wages bill

<sup>1</sup> Committee on Industry and Trade—Part I. Survey of Industries, 1927.

was £12,912,000; the total value of production was £82,896,297; and the total value of production less the cost of materials used was £26,303,297.

A definition of the term “co-operative”, prepared by the co-operative movement itself, was contained in the Industrial and Provident Societies (Amendment) Bill, 1924, promoted by the Co-operative Union—a national association of co-operative societies whose objects include propaganda in favour of co-operative principles and ideals, the promotion of education, and “other objects and purposes of a similar character, with a view to the ultimate establishment of a Co-operative Commonwealth”. The first clause of this Bill read as follows:

“1. A society shall be entitled to use the word ‘co-operative’ as part of its name if provision is made in its rules:

(a) That no member or shareholder other than a society shall have more than one vote.

(b) That the surplus funds arising from the business of the society, after making proper provision for depreciation and working and preliminary expenses applied as provided by the rules which shall be approved by the Registrar, shall be distributed as follows:

- (i) In payment of interest on the paid-up capital at a rate not exceeding six per cent. per annum.
- (ii) In the formation of a reserve fund applicable in the manner provided by the rules.
- (iii) In promoting instruction, culture, or recreation, by forming an education fund to which two and a half per cent. of the net surplus funds, or such other sum or percentage as an ordinary business meeting may resolve, shall be carried.

- (iv) In the division of the remainder of the net surplus funds, after providing for the before-mentioned charges and for such other payments as may be authorised by the rules, either among the members or shareholders in proportion to the volume of business which they have done with or through the society, or among the employees of the society, or partly in one way and partly in another."

## THE ORGANISATION OF PRIVATELY OWNED INDUSTRY

It will be useful to start our reference to privately owned industry by quoting a statement made in the Report on Trusts (1919) regarding the advantages to be gained from combination:

"Great possibilities of industrial and commercial improvement lie beyond the confines of free competition, and are only to be realised by combination in one or other of its various forms; by informed consultation and co-operation, by formal association, or by actual amalgamation. These may be tabulated as follows:

Buying (materials, plant, stores, etc.).

Assured and steady supply of material.

Unification of buying departments and staffs.

Bulk instead of detail purchase.

Greater opportunity for comparison and selection.

Cheaper credit and better discounts.

Standardisation of materials.

Making.

Standardisation of product.

Specialisation in product.

Improvements in plant.

Use of by-products.  
 Equalised distribution of work.  
 Quality.

#### Selling.

Transport economies.  
 Unification of selling departments and staffs.  
 Extension of export trade.  
 Collective advertising.  
 Lower costs of distribution, fewer middlemen.

#### Knowledge.

Interchange of data and experience.  
 Standardisation and interchange of costings.  
 Collection and dissemination of trade statistics.  
 Promotion of scientific and technical research.

The above are the possibilities of combination, not the necessary accompaniments or the invariable achievements. It should be stated at once that no association among the many hundred existing in the United Kingdom at the present time, and few of the numerous mammoth amalgamations, have come as yet anywhere near realising them in full.”<sup>1</sup>

It is obviously impossible to examine in any detail in a single chapter the extent to which combinations of owners have been able to realise these objectives in the years that have elapsed since the above report was published. It cannot be questioned, however, that there is a strong movement towards combination. In a memorandum on the subject furnished to the Balfour Committee by the Board of Trade a long account is given of the chief causes of the tendency, which I have summarised as follows:

<sup>1</sup> Quoted from *Monopolies, Cartels and Trusts in British Industry*, by Herman Levy, Ph.D. (Macmillans, 1927.)

*Increased Size of Establishments.*—Under this heading a statement is made, on the authority of the Board of Trade, which is of fundamental importance to the proposals for industrial reconstruction that I shall advance later, of which it is worth taking special note.

“The growth in size of highly specialized manufacturing plants made possible a degree of competition which was previously not experienced. Being unable to adapt their plant to other uses, manufacturers had an incentive to continue production in times of depression not only so long as they could earn anything towards their heavy fixed charges, but even at an actual loss, provided that such loss was not too great. By so doing they prevented their business from being unduly disorganised, and might hope to be able to take advantage of any improvement in industrial conditions. Competition of this kind may drag a whole industry into insolvency, and the businesses affected are naturally prompted to consider what remedies are possible. They may be led to adopt some form of combination with a view to regulating prices or curtailing output. Thus, out of extreme competition tends to emerge combination.”

*Increased Cost of Equipment.*—“This may serve to reduce or delay the entrance of new competition and thus to make combinations of existing undertakings in the industry more effective.”

*Better Transport.*—This tends to localise industry in the most suitable locality, and, the owners being in closer contact with one another, combination is easier.

*Marketing.*—With the widening of markets, more elaborate marketing organisation is required and there is an incentive to combine for this purpose.



*Improved Technique.*—This calls for concentration of production and a division of labour within the industry, in order to control a larger output.

*Patents.*—Where a particular firm or group controls a patent or a secret process, it is clearly easier to compel combination.

*Raw Materials.*—When the raw materials or other essential supplies to an industry are in the hands of an organisation with power to control the market, combination in the manufacturing industry is a natural means of self-defence.

*Monopolistic Buying.*—Combination may also be induced by the opportunity of striking a hard bargain with industries providing supplies or services of which a particular industry is a large consumer.

The types of organisation range “from mere informal understandings between competing producers or merchants, to the giant business which controls the whole output and conditions of sale of a particular commodity”.<sup>1</sup>

These types include:

- i. Informal understandings or “gentleman’s agreements”.
- ii. Associations for regulating prices.
- iii. Associations for regulating output.
- iv. Pooling associations “in which each member pays a small fixed sum per unit of output into a pool, which, at regular intervals, is divided equally among the contributors, after the formation of a reserve fund”.
- v. Associations for allocating contracts.
- vi. The selling agency.

<sup>1</sup> Committee on Industry and Trade. Survey of Industrial and Commercial Efficiency, p. 71.

- vii. The participating cartel with selling agency in which "competing producers agree to establish for a definite period a joint selling agency for the exclusive sale of their products and each producer is allotted a 'participation' in the total output. Those who exceed their participation pay a fine, those who fall short of it receive an indemnity."
- viii. Financial community of interests:—When two or more companies pool the whole of their profits and divide them in pre-arranged proportions.
- ix. Exchange of shares.
- x. Holding companies. Where "the individual companies continue to exist, and to enjoy a greater or less degree of autonomy, but their general policy is controlled by the holding company in the interests of the whole group of undertakings."
- xi. Consolidations or mergers.

There is no up-to-date official information regarding the various types of organisation that have actually been set up in British industries. A Royal Commission on shipping rings was appointed in 1906 and it reported in 1909. A Departmental Committee was appointed in 1908 to examine the question of combinations connected with the importation of meat. The same subject was considered by an Inter-Departmental Committee set up in 1919, which recommended in its report "the establishment of a system of licences in order to provide a method of checking practices in the meat trade inimical to the public interest".<sup>1</sup>

<sup>1</sup> Committee on Industry and Trade. Survey of Industrial and Commercial Efficiency, p. 89.

Departmental Committees were appointed by the Board of Trade in 1916 to consider the position of various industries after the war. These Committees reported favourably to the idea of closer co-operation and combination between manufacturers in this country. The Committee on the iron and steel trade contrasted the high degree of organisation in Germany and in the United States with the individualistic methods then prevailing in this country. It recommended "that an organisation of British manufacturers be formed for the purpose of obtaining adequate supplies of suitable iron ore; that a national selling organisation be formed to market British iron and steel products; and that . . . manufacturers be urged to form combinations for the purpose of laying down large and well designed units". Similar recommendations were made by the Committees on electrical trades, engineering trades, shipping and shipbuilding, and textile trades.

A Committee on Commercial and Industrial Policy after the war was appointed in 1916 and it reported in 1917. This Committee recommended "that all international combinations to which British companies are parties should be registered at the Board of Trade by the British persons concerned . . . and that the Board of Trade should have power to call upon individual consolidations or combines for such information as it might require for its confidential use".

The Committee on Trusts was appointed in 1918 and it reported in 1919. It recommended that it should be the duty of the Board of Trade to obtain information regarding organisations for the regulation of output and prices, in so far as they tended to the creation of monopolies or to the restraint of trade. An annual

report was to be presented to Parliament, a standing tribunal was to be set up to investigate complaints, and the Board of Trade was to make recommendations for remedying any grievances.

In 1919, a Profiteering Act was passed, as a result of which a "Standing Committee on Trusts" was set up. This Committee appointed numerous sub-Committees, which conducted investigations regarding trusts and combinations in various industries and services. Reports were published of thirty investigations, of which summaries, with some later information, are to be found in the Survey of Industrial and Commercial Efficiency published in 1927. The Act was, however, allowed to lapse in May 1921 and a great deal of the information is now out of date, not because the tendency towards combination has been checked, but because it has received such an impetus in the years since 1927.

The reports on this subject seem to reveal that Government has been inclined on the one hand to encourage combination because of the gains of efficiency, and, on the other, to fear the dangers of monopoly to the public interest. Suggestions have repeatedly been made that some form of orderly control should be established by which we should obtain the benefits of combination, under adequate safeguards, against an abuse of the powers it confers. The position is that, despite our hopes and fears, the drive towards combination has been greatly accelerated in recent years under the compulsion of economic necessity. But we have not moved very far towards the formulation of plans for adequate public supervision—which need not be either troublesome or antagonistic to the industrial organisations concerned.

An example of the more recent developments is to be found in the present organisation of the iron and steel industry. It may be remembered that, as a result of the pressure brought to bear upon the industry by the Import Duties Advisory Committee as a condition of granting tariff protection, a scheme<sup>1</sup> of reorganisation was formulated in March 1933. This was approved by the Import Duties Advisory Committee and referred back to the industry for final endorsement. Considerable opposition to the scheme was encountered and it was revised and modified. The scheme which finally emerged was described as "of a less compelling character" and "as a mere outline" which "may mean anything or nothing".<sup>2</sup> It set up an incorporated body called the British Iron and Steel Corporation, which is to co-ordinate the activities of the sectional associations, improve the organisation of the industry, consider schemes of central purchasing and common marketing, and act as the authority through which all negotiations shall be conducted with public authorities and any other outside interests.

It is generally admitted that great progress has been made in the reorganisation of the industry, but the Corporation has been in existence only during a period of industrial revival which has particularly benefited the demand for steel because of rearmament. It remains to be seen whether sufficient safeguards of consumers' interests have been provided, for, in this case, the final compelling power of removal of the tariff might prove useless, or inadequate, because of the arrangements that have been made with the European Steel Cartel which "sets rigid limits to the

<sup>1</sup> Published as a White Paper.

<sup>2</sup> *The Times*, February 21st, 1934.

volume of sales that both British and Continental producers may make in each other's territories".<sup>1</sup>

Reference has already been made to the coal industry and the cotton industry among the agencies of Government intervention, because the schemes for their reorganisation have been judged to require statutory assistance. Another basic industry—shipbuilding—which had been labouring under great difficulties since the war because of the decline in demand, took action in 1930 to extricate itself from the depressing effects of over-capacity. Certain prominent shipbuilders, with the support of the Bank of England, formed a private limited liability company known as National Shipbuilders Securities Ltd., to "assist the Shipbuilding Industry by the purchase of redundant and/or obsolete shipyards, the dismantling and disposal of their contents, and the re-sale of the sites under restrictions against further use for shipbuilding".<sup>2</sup> "Some forty-seven companies, representing over 90 per cent of British shipbuilding capacity, have subscribed to its shares. No compulsion has been used to secure these members, and, except for the moral and financial support of the Bank of England, no external pressure has been applied."<sup>1</sup>

Another example of a similar trend is the Millers' Mutual Association. This Association created a limited liability company called the Purchase Finance Co. Ltd., which has the power to acquire milling properties and hold them inactive, scrap them, or operate them on its own account. "Funds to finance the liquidation of weak mills have been secured, as in the Shipbuilding

<sup>1</sup> *Industrial Reconstruction and the Control of Competition*, p. 128, by Arthur F. Lucas, Ph.D. (Longmans, Green & Co., 1937.)

<sup>2</sup> From the Memorandum of Association.

Industry, by a levy on output.”<sup>1</sup> The Millers’ Mutual Association itself operates by a quota system of production, imposing penalties for exceeding the quota and granting compensation for failing to achieve it.

Examples are to be found in British industry of almost every type of organisation referred to on pages 166-7. A great deal of information regarding the types adopted in different industries is contained in Part I of the Survey of Industries (1927) conducted by the Balfour Committee on Industry and Trade. Developments are taking place so rapidly, however, that it is impossible to make any detailed reference to particular industries in such a brief survey. A useful book on the more recent developments is *Industrial Reconstruction and the Control of Competition*, by Arthur F. Lucas, Ph.D., from which I have already quoted.

The most wide-spread form of organisation in this country is, of course, the Trade Association. The formation of these Associations was encouraged by the Government during the war to assist in the equitable distribution of raw materials and in the general war-time organisation and control of industrial activity. The growing intensity of competition after the war impressed upon the industries the need for their retention as a permanent form of organisation. The degree of their authority and power to determine policy varies from industry to industry, but it can be said with confidence that they have become a permanent feature of British industrial organisation. The whole trend of development is in the direction of greater integration, and the supersession of unrestrained competition by methods of co-operation.

<sup>1</sup> *Industrial Reconstruction and the Control of Competition*, p. 141.

## CHAPTER IX

### THE AIMS OF ECONOMIC POLICY IN THE FUTURE

#### 1

THIS survey of the accelerating trend towards planning, both by Governmental and Public Utility agencies and by organisations of private owners, will perhaps serve to remind the reader how far we have travelled from the original structure and forms of a Capitalist profit-making society. It shows that a very large proportion of our total wealth production already comes under some form of public ownership, statutory control, or private combination. If it were possible to give figures relating to the volume of capital employed, and the output of goods and services accounted for, by these co-operative enterprises, both public and private, it would be a staggering reply to those who continue to reason upon the assumption that we are still living in a competitive self-adjusting economy. To produce such a calculation would be a valuable piece of research work. It would serve to clarify our problem and lift political discussion into an atmosphere of reality.

The facts I have been able to bring together, while much less satisfactory than such a calculation would be, serve, nevertheless, to show that it is impossible to regard the real issue of today as being that of a struggle between the theories of free competition and planned production—between *laissez-faire* and State intervention. While political parties—like Tweedledum



and Tweedledee—have been conducting the theoretical argument, the two systems have in practice been merged. Competition and planned production, State enterprise and private enterprise, exist side by side, and there has been a modification in practice of the theories that were held with regard to each.

On the one hand the new Public Utility concerns are not run in accordance with the old theoretical conceptions of Socialist enterprise. The idea of independent management has been accepted. The efficiency of the new concerns is subject to the test of profitability. They may not earn a divisible profit, but they have to meet interest and depreciation on the capital they employ out of their own earnings. On the other hand, in the industries that are still governed by private enterprise, there is a strong tendency towards corporate organisation which eliminates the waste of redundancy and at least *creates the machinery* through which the separate units in a single industry could be made responsive to rational and planned direction.

We cannot retrace our steps and re-establish forms of ownership, management, and organisation that have been proved obsolete by the relentless march of history. What we must do is to consider how this process of transformation that has been going on can be so developed, under proper guidance and restraint, as to ensure the greatest social benefits. We must not set our faces against the current of economic history and seek to cherish visions of what might have been if that history had been different. Our visions must be of the future, not of the past, if we are to play a useful part in the constructive work of social planning. We must ask what future use can be made of these new organs of authority that have been set up. What guidance is

there to be obtained from the record of their experience that will help towards a solution of other difficulties? What lessons do they teach that might assist us in finding a solution to those problems of poverty and insecurity which still exist and which we set out originally to consider?

A more complete study of the literature regarding these new organs of authority shows clearly that they were designed with a view to overcoming particular difficulties within the limited range with which each of the industries or services affected was itself concerned. What we have recorded in our survey is really the progress made in the "rationalisation" of separate industries and services and the part that legislative enactment has played in assisting the process. No really serious consideration has yet been given to the co-ordination of these new authorities in a scheme aiming at the *general* rationalisation of the whole economy of which they are each a part.

This is not a matter for reproach. It shows that the vast changes that are being carried through have been governed by the principles of growth and cautious development. We have moved on from one experiment to another with little consciousness that we were bound to consider ultimately the relationships of these new authorities to one another. This method of progress is apt to be exasperating to those who see the need for speedy readjustment. It is true also that a clearer conception of the new economic framework into which each separate rationalised enterprise would be expected to fit would have obviated both present delay and future difficulties. But our impatience should be curbed by the recollection that the idea of a rationally planned general economy came later than,

and as a result of, the movement towards rationalisation in the separate units.

Having made so much progress, however, in the different, and as yet unco-ordinated, sectors of our economy, the time has come when some guiding theory of the general implications of this process of development should be proclaimed, and the natural, unconscious trends in industry formulated into a consciously planned economic policy. The economic policy of a nation cannot be made up of a conglomeration of policies pursued by separate units of industry, commerce, or finance operating in isolation from one another. However well organised the separate units may be they can only contribute to general welfare and stability, on which they themselves depend, if each of their plans or policies is modified by a knowledge of what others are doing. The next step forward, therefore, in our social thinking is to move on from "piece-meal planning" to national planning—from the consideration of each industry or service separately to a consideration of them all collectively. But, before we can pass on to a consideration of the different lines of action which will be necessary to extend the principle of rationalisation from single industries to the general economy, it is necessary that we should formulate some theory of the society of the future.

## 2

The trend of development which we have been examining shows clearly that competitive methods are being replaced by co-operative methods. In a number of industries and services, an organisational structure has been created that permits of a coherent policy of

self-government within these industries and services. In some cases this has been achieved under public or public utility ownership and management, and in other cases under private ownership and management. There is still a very wide range of industries and services in which the old conditions of free competition continue to prevail.

A superficial consideration of the developments to which attention has been drawn has led many people into the error of regarding these changes as evidence of a simple straightforward trend towards the complete replacement of private enterprise by public enterprise. Obviously there are many industries and services to which this does apply. But it is quite wrong to imagine that it applies over the whole field of economic activity, nor is it, in my opinion, advisable that it should. In Chapter VII, I made a passing reference to the sweeping generalisations about the Capitalist system as a whole which usually arise in the Socialist analysis. It is generally admitted that private enterprise and the incentive of profit-making served as a vigorous means of developing the resources of the world and of exploiting the new technique of the industrial system. During the period of vigorous expansion there was always the prospect that temporary difficulties arising from disequilibrium would be solved through new opportunities of expansion, obtained by the opening up of new markets, or by extension of the area of industrialisation in the world. Profits accumulated in the hands of the fortunate entrepreneurs easily found remunerative new investment. The system was piling up greater and greater capital accumulations in the form of more efficient machinery of production and improved transport facilities, mining equipment, and

agricultural machinery for the exploitation of new areas. The population of the civilised world was increasing, new native populations were being brought within the extending frontiers of the market. The Capitalist system was growing up.

It is clear that to a large extent these circumstances of vigorous development have passed away. Industrialism has spread over almost the whole area of the civilised world. It is not so easy to find profitable opportunities for the investment of those surplus profits which are not absorbed either as living expenses or for the replacement of existing plant. The difficulties of keeping the system in equilibrium are thus increased; for it is a simple truism that unless the whole of the incomes, whether profits or wages, which are distributed in the process of production, are spent as rapidly as production takes place, the price of the commodities produced will be greater than the amount of money entering into effective demand, and thus prices will fall, production will be discouraged, and unemployment will occur.

Observing these facts, it is very easy for the Socialist thinker to arrive at the simple conclusion that the Capitalist system as a whole has passed into a period of inevitable decline, and that there is no solution of our immediate problems short of complete State ownership and control of all the means of production. This generalisation has to be abandoned by Socialists themselves, as we have seen, when they come to the practical application of policy. They cannot logically say on the one hand that their policy of *partial* Socialisation is adequate to a solution of our problems and, on the other, that those problems cannot be solved short of *complete* socialisation. But like all generalisations it

can be interpreted in a number of different ways. It may be taken to apply to the difficulties, which are undoubtedly greater today than in earlier phases of Capitalist society, of finding profitable opportunities for investment, and scope for the full employment of our resources. In Chapter XI, I shall deal with the key financial aspects of that problem. In this section, since we are to consider proposals for industrial reconstruction in Chapter X, it might be helpful to discuss whether the generalisation can be applied in the field of industry.

Is Capitalist industry in decline? The most convenient test is to take the employment capacity of the various industries, allow for the average increase of employment that has taken place, and find which industries have expanded above the average increase and which have fallen below the average. That is not a very fair test, and cannot be regarded as conclusive, for it leaves out of account the possibility that, while employment may have declined, production may have been maintained or increased. On the other hand, it might be argued that a reduction in the labour costs per unit produced should have led, in those instances, to such an expansion of consumption as would have kept the employment capacity up to the average level. However, it is convenient to adopt the employment test, for the figures are available in a survey,<sup>1</sup> recently conducted by the Ministry of Labour, of the changes between July 1923 and July 1937 in the estimated numbers of insured workers in certain industries. Taking 1923 as 100, employment in all the 97 industries and services covered had risen to 122.7 in July 1937. The total number of industries and services that

<sup>1</sup> *Ministry of Labour Gazette*, November 1937.

fell below this average increase was 52; and the total showing an increase greater than the average was 45. There were 31 industries and services which showed a decline as compared with July 1923.

To put this in another way; out of the 97 industries and services there were 31 in which employment had *declined* in 1937 as compared with 1923, and 66 in which employment had *increased*. Of the 66 in which employment had increased there were 45 *above* the *average* increase and 52 below the *average* increase.<sup>1</sup> It will be seen, therefore, that there is some truth in the Socialist generalisation, if it is applied to some industries separately, but that it becomes nonsensical and unreal when it is applied to the whole field of production generally.

The fact is, of course, that these figures merely reveal the changes that have been taking place in the character of production. Industries tend to pass through a life cycle. There is the period of initiation—of speculative enterprise, when great risks have to be run by entrepreneurs to establish the industry or service at all. At this stage great losses are often suffered before the productive methods are perfected and a profitable market created. The risk of these great

<sup>1</sup> There is no evidence of decline, for example, in the Electrical Engineering industry in which employment has increased from 60,000 in 1923 to 114,000 in 1937; in the Motor Vehicles, Cycles, and Aircraft industry where the increase is from 191,000 to 351,000, or in Silk and Artificial Silk where the increase is from 37,000 to 80,000. There has been a decline, however, in Coal Mining (to 72, taking 1923 as 100), in Iron Ore and Ironstone Mining (to 60·4), in other Mining and Quarrying (to 43·6), in Pig Iron (Blast-furnaces) (to 63·8), in Steel Melting, Iron Puddling, and Iron and Steel Rolling (to 89·3), in Marine Engineering (to 83·8), in Shipbuilding and Ship-repairing (to 66·3), in various branches of the Textiles industry and in a number of others. (Figures taken from *Ministry of Labour Gazette*, November 1937, p. 445.)

losses is faced only because of the hope, should the enterprise prosper, of substantial profits from which the early losses can be liquidated.

If they are successful, there comes the period of *expansion* when profits begin to come in, followed by developments in technique which are impelled and encouraged by the competition of rival producers. This is the period of growth and increasing output to meet an expanding market.

They may then reach a stage when the technical methods of production have been more or less fully exploited and when output has reached the limits the market will absorb, followed probably by a declining market, as new and rival products make their appearance, to give satisfaction to the same human need in a more attractive way. At this stage the industry may become rigid, more or less static, and its employing capacity and output may begin to contract.

Many industries do not live through the full cycle, however. They enjoy their period of expansion; new products appear on the market that supplant the old products; the older enterprises decline or pass out of existence altogether, or they may be able to adapt their factories for the production of the new product. These are usually the smaller enterprises which have not needed to employ great accumulations of capital in the fixed forms of expensive equipment. If they are lucky, the relatively small capital charges for the equipment they require are liquidated in their prosperous period, and the liquid assets that accrue from their operations are employed in adapting their enterprises to new forms of production. If they are unlucky, and are "caught short" in the unfolding process of industrial



history, their forced liquidation is compensated for, as far as society as a whole is concerned, by new enterprises and the expansion of employment elsewhere.

But the industries or services that do live through the cycle and have a permanent place in the economic life of the nation may find themselves faced, in the later stages of the cycle, with problems of redundancy, and the instability to which redundancy gives rise.

It is often argued that this is a problem with which society should not concern itself. The opinion is expressed that these industries must be left to solve their own problems and that these problems will be solved by allowing the pressure of competition to drive the least efficient units out of production and thus bring the productive capacity into a correct relationship with market demand. That is a very comfortable and "correct" academic theory. What actually happens should, however, qualify our academic satisfaction. The pressure of competition means, for the workers, the ruinous process of competition in wage standards and in the hours and conditions of labour. For the owners, it means a long struggle against adversity, and, for some of them, final bankruptcy. The odd thing is that the theory is supported by some of the intellectuals of the Labour movement—but only, I think, by the more remote. To them, of course, it is only a problem on paper. They would do well to consult their Trades Union comrades regarding the human consequences of the process which they defend.<sup>1</sup>

But, even if it could be defended on humanitarian grounds, we have to take account of the fact that the

<sup>1</sup> In this connection see also the passage quoted from a memorandum submitted to the Balfour Committee by the Board of Trade on page 165.

“squeezing out” process does not take place so easily today. The fixed capital employed may be quite expensive—much more so than in the earlier period when the theory of competitive compulsion was more generally accepted. The owner of the expensive fixed capital cannot give up the struggle so readily as he might in former times. He hangs on. He cuts all his other costs. He engages in weak selling. He may even get financial support from the banks—and there are familiar examples of how, in this way, the banks added to the rigidity of the cotton textile industry. The process is not quick and decisive. It is a long-drawn-out struggle. Meantime, during the struggle, not only are the owners facing bankruptcy but the workers’ standard of life is being reduced. It may be regarded as dangerously unorthodox, in economic theory, to try to find a more rational method of adjustment. I recognise the dangers quite well. Nevertheless I think it should not be beyond human ingenuity to find that more rational method, while safeguarding ourselves against the dangers of monopoly control. It is at least worth while to try.<sup>1</sup>

We shall come to an examination of a possible method of adjustment in the next chapter. The point

<sup>1</sup> “Within the existing framework it is only under rare leadership or under intense economic pressure that appreciable moves towards better organisation for industry can be made. Yet discontent with all these obstacles and makeshifts is growing fast. More and more members of industry recognise that to halt half-way between *laissez-faire* and a planned structure is to make the worst of both worlds. We have too much organisation to allow automatic readjustment to continue, and too little to secure necessary adjustments through conscious direction. Employers’ associations, trades unions, industrial federations, cartels, amalgamations of firms, and so forth are all striving in their own way to bring order, and are often only succeeding in making confusion worse founded.” (*Planning*, No. 26, May 8th, 1934.)

I want to make here is that the Socialist generalisation which we were discussing does not apply to industry as a whole. At every stage in the growth of modern Capitalism there have been industries and services which have arrived at different stages of development. The existence of declining industries today is not a new phenomenon pointing to a decline of the whole system. It merely raises the question whether (1) it is possible to provide a means by which the scaling down of old industries can be conducted in such a way as to avoid detrimental consequences to the general economy and to the life of the people, and (2) whether we can facilitate the development of new industries on a sufficient scale to compensate for the decline of the old. This explanation of the different stages of development of industries is intended also to justify the view that a policy of industrial reconstruction must take these differences into account and should be flexible enough to provide for the variation of treatment that is required.

In the next chapter, it will be suggested that, for the great majority of industries that require to be reorganised, action could be taken under the powers of a permissive Industrial Reorganisation Enabling Act. Such an Act could be framed to provide for increasingly strict safeguards according to the nature of the industry scheme for which the powers were being sought. A reference will be made also to certain industries or services which might be regarded, for a variety of reasons, as requiring to be incorporated into the sphere of public utility enterprises or statutory undertakings. Where it can be shown that the reorganisation of a particular industry or service has become essential for the service of a wider social purpose than its own

technical efficiency, it may be found necessary to adopt methods specially adapted to the purpose to be served. Here again, I do not believe that any single formula can be propounded as applicable in all cases.

If we are to think, then, of different industries and services as having reached different stages of development, and as having to be reorganised with a view, in some cases, merely to technical efficiency and in other cases to wider social purposes, it is clear that we cannot lay down any single simple formula which would apply at any moment of time to them all. It is because of this diversity in the problem itself that I regard the lumping together of the whole of capitalist production in the Socialist analysis as being misleading. From time to time there will be spheres of economic effort which will have to pass under some form of public utility or statutory control. While this is happening, new opportunities will be occurring for private enterprise in the initiation and development of new undertakings, and it is by approaching the subject in this way that I am led to the conclusion that, for as far ahead as we can see, it is both possible and desirable to find a solution of our economic difficulties in a mixed system which combines State ownership, regulation or control of certain aspects of economic activity with the drive and initiative of private enterprise in those realms of origination and expansion for which it is, by general admission, so admirably suited.

I realise, of course, that it is contended both by Socialist Planners and by Anti-Planners that this mixed system—this half-way house between a Free Capitalism and complete State Socialist planning—is an impossibility. They unite in claiming that we must be whole-hoggers or nothing; that we must, as it were,

either leap forward into the twenty-first century or retreat into the nineteenth. I profoundly disagree with that view. Britain has been moving along the road towards economic planning for many years now in accordance with the traditional English principles of compromise and adjustment. Unless we can continue this peaceful evolution from a free capitalism to a planned capitalism, or, it may be, a new synthesis of Capitalist and Socialist theory, there will be little hope of preserving the civil, democratic, and cultural freedom which, limited as it may be at the moment by economic inefficiency, is a valuable heritage. It is only by the adoption of this middle course that we can avoid resorting to measures of political discipline and dictatorship. Such methods, whether exercised by the "right" or by the "left", are the very opposite of that liberation and freedom which mankind should be striving to achieve.

Naturally, the designing of the kind of planned society which I am visualising will be no easy task. But I suggest that it is better to face the difficulties and solve them in such a way as to enable us to preserve our heritage of liberty, rather than face the *same* difficulties after a social upheaval in which our liberties will have been sacrificed and destroyed.

Those who claim that this mixed system, involving a diversity of forms of ownership and control in different sectors of the National economy, is impossible ignore the fact that it already exists. It has been too long with us for it ever to be abandoned in accordance with the logical conclusions of *laissez-faire* economists. Moreover, contrary to the theoretical assumptions which Socialists are apt to make, it is actually working. I believe it to be politically wise and

economically urgent for us now to devise a comprehensive system of national planning into which the operations of all the separate schemes of partial planning, whether under National, Public Utility, Municipal or Private ownership and control, should be made to fit as integral parts of a coherent whole.

The theories of free Capitalism or State Socialism are remote from the immediate practical needs and possibilities of our time. The pressure of economic and political necessity is too great today for us to afford the leisure to conduct any longer the barren argument between them. By devoting ourselves more closely to the practical needs of our time, to the birth of the next phase in social evolutionary development, we shall not be able to appeal to the romantics who can work only for some distant millennium. But we may be able to enlist the understanding support of those who are interested in bringing about the results which it is within our power to achieve in the period in which we are ourselves responsible for the course of social history.

### 3

Industrial reorganisation is only one part of the general problem which we set out to solve. The aims outlined at the beginning of this book can be achieved only as a result of such a correlation of *all* the factors in our economic life as will bring about the full employment of our resources, and a dependable stability in the more prosperous conditions which we hope to create. We shall not be producing satisfactory results until we have established such a wise governance of the economic system as will eliminate or control the trade cycle. We must maintain the full and regular

employment of our capital and labour resources. Only by doing so can we defend the social services from the danger of suddenly and periodically having thrown upon them a burden of unemployment and poverty too excessive for them to bear. It would be a sign of complete failure if at any time it became necessary to lower the standards of minimum human needs that had been fixed by reference to the requirements of health and efficiency.

The fixing of a minimum standard of life must not be regarded as merely humanitarian. It is closely related to the whole question of economic stability. There is a clear relationship between the purchasing power in the hands of the people and the demand for consumers' goods. There is an obvious relationship between the demand for consumers' goods and the level of employment among workers engaged in producing these goods. To maintain a balanced production in any community, taking into account, of course, its external relations, requires that goods and services shall be produced in the quantities that will enable them to exchange for one another without leaving excessive unsold surpluses of particular goods or services to cause disturbance of prices and fluctuations of production and employment.

The maintenance of this equilibrium means the avoidance of slumps. It involves the "ironing out of the trade cycle". It is impossible to eliminate fluctuations entirely, but it is vitally important, whatever may be the progressive policy advocated for the eradication of poverty and insecurity, that the major slumps of trade depression should not be allowed to recur. To deal with this question adequately is impossible in a book of this kind, but it is necessary to formulate

some view regarding the sources from which disturbance and dislocation may arise in order that provision may be made to defend the higher standards of life we hope to establish. It is only by this stabilisation of prosperity that we can achieve the economic security so essential to human happiness and advancement.

Since the depression of 1929-31, a great many books have been written on the subject by people skilled in the analysis of economic events. No simple, straightforward, and universally accepted explanation of the cause of that crisis has yet emerged. That is not the fault of the economists. It is clearly a reflection of the facts. There is no simple explanation possible, for the crisis was not the consequence of any single error of judgment or of policy. It appears to have been partly the culmination of a long process of competitive development in the world, partly the consequence of the exceptional dislocation to which the war itself, and the peace settlement which followed it, gave rise. It might partly be attributed to short-sighted political policies which it is now easy to condemn, but which were not so recognisably mistaken to any one of us at the time. It resulted also partly from miscalculations by those responsible for central banking policy (*i.e.* our inability to support the high parity of sterling), partly from the rigid and inflexible capital structure in industry which inevitably accompanies a higher degree of mechanisation, partly from the inability of unorganised industries to adapt their output to market requirements, and partly from a faulty distribution of earnings as between saving and spending.

The list could be endlessly prolonged. The impression made upon my mind by the literature on the subject is that a highly individualistic economy, confronted by



the intricate difficulties of the post-war economic situation, provided the opportunity for, and almost the certainty of, a multitude of individual errors which resulted in collective ruin. It was nobody's business to ask "What will be the social consequences of the action I propose to take?" It was impossible for the banker, the investor, the industrialist, or the worker to know what the social consequences of his action would be. Each of them could say that the action he proposed to take would be right and socially beneficial, providing all the others acted in accordance with the same conception of economic policy. Long arguments have been advanced on behalf of finance to prove that its policy was right, if industry and commerce had adapted their behaviour to that policy. Industry has argued that disaster overtook it, not because of its own actions, but because of the intolerable burdens thrown upon it by financial conditions resulting from the deliberate policy of the banks. The one thing that emerges clearly is that Britain found herself unable to march to any one tune. With whatever good intentions every regiment, indeed one might say, every private soldier, in the economic army started marching to his own tune, the result was discordance, disharmony, and confusion. There was no national economic policy guiding and co-ordinating the actions and reactions of individuals operating on different sectors of the economic front, for no machinery existed by which that co-ordination and guidance could have been made possible.

It might be claimed that the last depression resulted from the abnormal complications of the post-war, pre-1931, situation and that there is little danger of a recurrence. It is true that great changes have been

carried out and that the economic system as a whole has been made more flexible as a result of the abandonment of the gold standard, the setting up of the exchange equalisation fund, and the consequent greater possibilities of adjusting financial policy to industrial needs. But these changes are not, in themselves, sufficient to guarantee the system against dislocation and disturbance in the future. There is still ample scope and opportunity for error. Indeed, at the time of writing, the main topic of discussion among the more far-seeing social thinkers and economists is "the coming slump".

Apart from the dislocation of trade and industry that arises from unsettled political relationships in the international field, and which creates special problems to be referred to later, there are three main groups of sources of disturbance to which attention must be given if we are to maintain stability. There is the industrial group, including the tendency towards over-capitalisation, over-expansion, and over-production, in particular industries. There is the financial group, covering not only general monetary policy but the whole problem of maintaining the flow, and the wise direction, of savings into creative investment, and the elimination of lags and interruptions of economic activity caused by idle balances withheld from active demand. There is a consumption group, which operates as a reflection of disturbances in the other two—that is to say, there is no *bottom* to the consumers' market, other than that provided by the insurance funds and other social services at a very low level of consumption.

The loss of purchasing power among consumers who become unemployed, as a result of errors of financial or

industrial policy, causes a decline in the market for consumers' goods and spreads the unemployment and depression in ever-widening circles, unless it is counter-acted, to the *producers* of consumers' goods, and from them outwards to the producers of durable and capital goods.<sup>1</sup> An adequate policy must therefore provide for—

- (a) A form of industrial organisation which curbs unwise, speculative over-expansion of any industry and assists, by an intelligent system of market anticipation, in guiding capital investment into the correct channels and in the correct proportions, to maintain a balance in the quantities of separate goods which, if stability is to be preserved, must exchange for one another.
- (b) A method of ensuring that financial policy is conducted in such a way as to keep the factors of production at the highest possible degree of permanent employment.
- (c) A method of insuring the consumer against a loss of purchasing power arising from unforeseen fluctuations, which, by maintaining his standard of life at an irreducible minimum by means of social provisions, would check in its early stages any tendency towards depression that might still arise. The proposals under this head will rest, therefore, not only upon the humanitarian

<sup>1</sup> "The check to production in industries in which such over-production has occurred is immediately transmitted to other industries by the reduction in the power of the personnel of the affected industry to purchase the product of other industries, and the depression tends to spread."—Final report of the Royal Commission on Unemployment Insurance, p. 90.

arguments that have already been advanced, but upon the requirements of a comprehensive economic policy.

This is a convenient summary of the different aspects of the problem to which we must devote attention. They will be discussed separately in detail in the chapters that follow.

## CHAPTER X

### INDUSTRIAL RECONSTRUCTION

It is necessary to examine the subjects referred to in the last chapter separately. In doing so, however, it should be remembered that the full significance of what is being proposed under each heading cannot be conveyed until the whole field has been covered. I propose to take the question of industrial organisation first, and leave finance until later. Finance is a service. Its function is not, or ought not to be, to dictate or determine the conditions under which industry and commerce have to be conducted. It ought to serve the needs of industry and commerce. The way in which this service can best be rendered, and how it should be organised, will be easier to understand when we have a clear idea of the general structure of industry and commerce in the economy in which finance will have to play its part.

Similarly, the special proposals which will be put forward regarding the maintenance of consumers' purchasing power can be discussed only when all the measures aiming at prosperity and stability in the economic system have been fully explained.

The subject of industrial reconstruction must itself be subdivided. It has been pointed out that the industries and services are at different stages of development and that each has its own peculiarities. It will be seen that provision will be made for the adaptation of schemes of reorganisation to the peculiar circumstances of each industry. But we may start by con-

sidering them in that order of their time development which has already been stated.

I have given, in the last chapter, a rough indication of the cycle through which many industries and services pass, and sought to show that, for the periods of initiation and expansion, private enterprise provided a better dynamic than any other form of enterprise. The starting of new industries, the adoption of new methods of production, the exploitation of new discoveries and inventions usually involve a considerable degree of risk. These risks are undertaken by private capitalists, who finance the original enterprise because they are prepared to back their own judgment with the prospect of a profitable reward. The reward comes, as I suggested, in the second stage, when the industry or the process has been established and substantial profits may begin to come in. There follows a period when the new enterprise is expanding and the market is absorbing the new output at profitable prices; there is a healthy competition between rival producers, the technique of the new enterprise is developed and improved, the labour force employed increases, and the returns are adequate to cover a reasonably high profit on the capital invested and reasonably high salaries and wages for the employees.

I am not concerned here with the question as to whether the division of the product as between Capital and Labour is just, fair, or equitable.<sup>1</sup> That is a

<sup>1</sup> It has to be remembered that the high profits made in the successful new enterprises are counterbalanced socially by the losses made on those that are not successful. The promise of high returns is necessary to induce the enterpriser to undertake the risks, and when these high returns are measured against the total capital employed in both the successful and the unsuccessful ventures it can be justified as the price society must be prepared to pay for technical and industrial progress.

different subject. What I am stating is that, in this period of development and expansion, the returns of the new enterprise may be expected to be commensurate with a reasonably high standard of life for those engaged in it. In this sphere, Capitalist enterprise is performing a useful social function. It is taking risks of initiation that could not be undertaken so easily, if at all, by any public authority, and it is securing the rapid development of technique in the exploitation of new sources of wealth. It will be open to these industries to take advantage of the enabling facilities that will presently be discussed, but it is not expected that they will desire to do so. It is for the industries and services that encounter the difficulties normally associated with the end of effective expansion, when the tendency towards redundancy begins, that the Enabling facilities are primarily devised.

*An Industrial Reorganisation (Enabling) Act.*—The arguments upon which the case for an Industrial Reorganisation (Enabling) Act is based require to be restated. I have been associated with the advocacy of this policy since 1931, before it was formulated into the more precise terms of a Parliamentary Bill, and have, therefore, paid attention to all the arguments for and against it. During the intervening period, there has been considerable distortion by critics of the proposals or arguments I advanced in *Reconstruction* and in earlier speeches and writings. To some extent these distortions have arisen from a lack of clarity for which I accept responsibility. But in a certain measure the critics must also bear the blame in some cases of being unwilling to understand and perhaps too ready to seize upon any discrepancy that might offer a basis for their

opposition. The proposal for an Enabling Act was originally advanced, after all, during a period of acute political and economic stress. It was formulated in hurried writings and speeches regarding important current events. It encountered an equally hurried opposition. But during the period of trade recovery the controversy has died down. It may be possible to restate the case today in a more careful way, which will spread understanding, if not conviction, regarding the policy itself and the motives which, as far as I am concerned, inspire it.

Prior to 1931 there had been a considerable growth in the number and importance of State measures which represented interferences with economic life and an impairment of the self-adjusting character of the economic system. Following upon the financial crisis, Britain abandoned the gold standard in September 1931. In February 1932 Parliament passed the Import Duties Act. The objects of the Act were outlined by Mr. Chamberlain on February 5th in the House of Commons as:

1. Correction of the balance of trade.
2. The raising of revenue without imposing undue burdens on any section of the community.
3. Moderate and scientific protection to transfer production to our own fields and factories.
4. Encouragement of industrial efficiency.
5. Promotion of tariff agreements with foreign countries.
6. Retaliation against foreign tariff discrimination.
7. Advancement of Imperial economic partnership.

Up to that time it had been intellectually defensible for those who accepted orthodox economic views to



cling to the idea of an economic system (operating within the limits of the laws relating to wages, hours, factory conditions, social services, etc.) which could achieve the adjustments that became necessary, simply by the pressure of competition. With the abandonment of the gold standard and the adoption of Protection it seemed to me that we had "reached the end of a period in Britain both in economics and in politics"<sup>1</sup> and that the idea of an unplanned self-adjusting economic system had been finally and irrevocably destroyed. Certainly it appeared to be true that "the Government which carried out a fiscal revolution could justify itself only by the successful development of the positive (and constructive) aspects of its own measures".<sup>2</sup>

If it was right to regard the abandonment of the gold standard and the adoption of Protection as marking the end of an epoch and as having the deep economic significance which this view implies, then it was necessary to discover a method of achieving by conscious direction what had formerly been achieved, at least in theory, by the self-adjusting mechanism of an open and competitive economy. I argued that "Protection must be regarded, not as an end in itself but as a preliminary defensive movement"<sup>3</sup> and that it could have constructive meaning "only as an aid to planning the development of our national resources". It is not necessary here to go into the arguments for and against Protection or Free Trade. Rightly or wrongly I am regarding that question as settled. We can continue to hope for, and work for, an economic relationship between nations in which all would be producing the

<sup>1</sup> *The State and Industry*, 1932.

<sup>2</sup> *Ibid*

<sup>3</sup> *Reconstruction*, p. 19.

things they are best fitted to produce and exchanging these products to their mutual advantage.

If that relationship is to be established it will be, in my opinion, as the result of conscious and deliberate regulation. I see no hope of its being accomplished by an agitation for the abandonment of control and the acceptance of the negative attitude of free trade theory. It may be achieved by more intelligent regulation of the economic system; but never by a policy of merely abandoning regulation and returning to the conditions in which the volume of production and the standard of life in this country were determined by the competitive efficiency of cheap labour, handling expensive machinery, abroad. We shall have to consider this question in a later chapter. Here I am concerned only to point out that Protection delivered the final blow to the whole conception of an unplanned self-regulating economy. On the top of the many other legislative barriers to free adjustment, we had introduced a new kind of interference which reduced still further the likelihood that free adjustment would take place and which increased tremendously the responsibilities of the State in economic affairs.

The first and most obvious necessity was to ensure that Protection should not become a shelter for inefficiency. Having granted industries catering for the home market some relief from the spur of foreign competition, it was essential to find some other means of ensuring, in Mr. Chamberlain's words, that Protection should act as an "encouragement of industrial efficiency". That raises the question, what is industrial efficiency? Is it to be judged by reference to the efficiency of single undertakings or by reference to all the undertakings in a single industry? Are we con-

cerned about the efficiency of units within an industry or with the efficiency of each industry as a whole? Are we to pay any attention to such matters as the correct size of the factory unit and the "load" of orders it should carry in order to obtain the greatest volume of production with the least expenditure of labour? <sup>1</sup> For, if attention is not paid to that question, you might find that all the separate undertakings in an industry, viewed singly, were as efficient as they could be, taking into account their load of orders and the variety of operations going on under the one roof, but that, viewed collectively, they were inefficient.

Here again we shall find that academic theory is able to leap the hurdle without difficulty. The theory is that healthy competition will ensure that some of the undertakings will grow to the "efficiency size" and by reducing their costs squeeze out the units that are unable to operate on a larger scale. How simple all these matters are—in the lecture room or the study! Unfortunately, it does not happen so smoothly in practice, else how do the theoreticians explain the situation in the coal industry or the application for Statutory Enabling Powers by the cotton industry, or the expensive methods of eliminating redundancy that have already been adopted in the flour-milling and other industries, or the situation in dozens of others which has led staunch believers in private enterprise to support proposals for industrial co-operation.

No! when we talk about efficiency in industry we

<sup>1</sup> The use of labour-saving machinery only means that it is more economical to employ some workers on producing machines in order that fewer workers should be needed in the making of the final product. Saving is effected only if by this means a smaller total number of workers (including those who make the machines) are needed to produce the same quantity of final products.

cannot leave out of account how the industry as a whole is organised, how many units are comprised in it, whether different branches of the production on which it is engaged are being allocated to units specialising in those branches, whether the possibilities of standardisation are being fully explored, and whether an adequate amount of money is being spent upon market and upon scientific research. I submit that no one would get very far in an investigation of efficiency without being forced to consider the industry as a whole.

This, of course, changes the whole problem. You can no longer take the comfortably detached view that efficiency necessarily follows from the maintenance of competition. You are led, in fact, however unwillingly, to quite the opposite view, that the most efficient industries are the most highly organised and integrated industries and that competition is quite as often an obstacle as a spur to efficiency. The cases in which this is not true are those industries that are going through their period of rapid expansion as referred to in the last chapter, and it should be noted, these are precisely the industries that no one expects to make use of the Enabling Powers that are proposed.

So far we have been discussing the subject as if the only object was technical efficiency in production. To achieve higher technical efficiency would be worth while in itself. But our purpose is to discover what contribution could be made by more efficiently organised and integrated industries to a solution of the general economic problem with which we are faced. The success of a policy must be judged by the extent to which it brings about such a disposition of our capital and labour resources as will keep the economic system

in equilibrium at the highest level of output of goods and services. Or, to put it in another way, to achieve such a balanced production as will enable all the goods and services produced to exchange for one another at prices which cover their costs of production and in quantities that call for the full employment of our labour and capital resources.

In the next chapter we shall be discussing the financial aspects of this question and we shall find that the desired equilibrium will be achieved only if each industry is organised in such a way as to keep its productive capacity related as closely as possible to an intelligent anticipation of market demand. By eliminating the waste of duplication and competitive redundancy and maintaining only the reserve capacity which fluctuations of demand require, industry would be making an invaluable contribution to the success of a national economic policy directed towards this end. The question of industrial reorganisation must not be regarded therefore as merely a matter of technical efficiency. It should be seen as part of a policy of general economic efficiency.

It was for all these reasons that I advanced an argument in general terms, during 1932 and in *Reconstruction* in 1933, for enabling powers which would grant statutory authority to a scheme of reorganisation, approved by a substantial majority of producers in an industry, for setting up an integrated system of organisation and appointing an Industry Council for the purpose of enforcing a common policy. The statutory powers would enable the majority to coerce the recalcitrant minority. The powers were, of course, to be permissive. They would not be forced upon an industry from outside. They would be available when a suffi-

cient majority in an industry had agreed upon a scheme and had convinced an Industrial Reorganisation Advisory Council, appointed by Parliament, that the scheme would not be injurious to the public interest. [If compulsory reorganisation by outside interference became necessary it would have to be the subject of special legislation.] At a later stage this suggestion was more clearly defined in the Industrial Reorganisation (Enabling) Bill introduced into the House of Lords by Lord Melchett with the support of an organisation, representative of industrialists, that we had formed, called the Industrial Reorganisation League. The argument was further elaborated about the same time in a small book,<sup>1</sup> written by a group of Members of Parliament.

The whole subject was also investigated very thoroughly by P.E.P., an independent Political and Economic Planning research organisation, which issued a report for private circulation and criticism in October 1934. These criticisms were published and examined in the P.E.P. broadsheet of December 18th (No. 40), 1934. It would occupy too much space to consider all of them here. Every one of the arguments has been answered at the various meetings held under the auspices of the Industrial Reorganisation League. Anyone who desires to give more detailed consideration to the subject can obtain the documents to which I have referred.

These documents should not, however, be regarded as more than a basis of discussion. If, and when, the Government decides to take action, the closest attention will have to be paid to every argument and to every legislative device to ensure the protection of the public interest. As a greater number of people turn their minds

<sup>1</sup> *Planning for Employment*. (Macmillan & Co., Ltd., 1935.)

to a consideration of the purpose of these reforms it is to be hoped that they will be improved in detail. To discover in the proposals certain dangers and difficulties ought not to lead to the conclusion that they should be abandoned, and that nothings should be done. If the purpose which they are designed to serve is a useful and beneficent social purpose, then the fears that it might be thwarted by a misuse of the powers ought to lead to constructive thinking as to how more adequate safeguards may be provided, or how the same purpose can be served by other means.

There is one objection (the only one of substance that has been advanced, it seems to me) which deserves consideration here. It is that Parliament, by granting to a substantial majority of owners in an industry the power to enforce schemes of reorganisation, may be assisting them to constitute themselves into a private monopoly; excluding new entrants from the industry by the aid of statutory authority, neglecting to engage in research and in the initiative of exploiting more efficient and economical methods of production, and holding the consumers of their products to ransom by the high costs of inefficiency or the high prices of a rapacious monopoly.

Now, it has never been suggested that statutory powers should be granted to an industry without the acceptance of obligations, equal to those powers, by the industry in question. And it is noticeable that in discussing the Cotton Reorganisation Scheme, which has been modelled on our proposals for an Enabling Bill, the *Economist*, which (quite rightly) subjected the suggestions in my book *Reconstruction* to a highly critical examination in 1932, no longer presents the same unyielding opposition in 1937. In its issue of

October 23rd, 1937,<sup>1</sup> it makes the following comment on the scheme prepared by the Joint Committee of Cotton Trade Organisations—and I have included the first paragraph because it is an excellent summary not only of the Cotton Scheme, but substantially of what we had proposed for a General Enabling Bill, to be available for other industries where the requisite majority could be obtained:

“In July last the President of the Board of Trade invited the cotton industry to prepare a comprehensive scheme for the improvement of conditions in the industry. The invitation was accepted by the Joint Committee of Cotton Trade Organisations and their proposals have now been published in a pamphlet. They follow the general lines which have come to be known as ‘self-government of industry’. The Government is to be invited to pass an Enabling Bill setting up a Cotton Industry Board representative of the industry and an Advisory Committee of three independent persons; the duties of the Board and the Committee would be to examine schemes brought forward either by sections of the industry or by the industry as a whole. The Board, though consisting of two spinners, two manufacturers, one dyer, one bleacher, one printer, two merchants, and three operatives’ representatives, is, in the first instance, to be appointed by the Board of Trade. The schemes may cover any question of the reduction of surplus capacity, the limitation of excessive competition, the regulation of production or sale, the fixing of minimum prices or margins, the institution of pools and quotas, the imposition of levies, the regulation of new entrants to the industry, the enforcement of labour agreements—in short, any of the manifold devices of industrial regulation. The Board and the Committee shall not approve a scheme unless it is supported by a ‘substantial majority’ of the section

<sup>1</sup> Page 155.



directly concerned, unless they are satisfied that it will not adversely affect other sections of the industry, the employees of the industry or the public interest. They are also enjoined to see that it does not handicap new firms or prevent the expansion of the industry, and that it will tend to assist the export trade. When a scheme has been approved by the Board, the Advisory Committee and the President of the Board of Trade, it shall come into force by Order, provided that neither House of Parliament objects within twenty-five days." . . .

"From the technical point of view [the *Economist* goes on to say] the plan has many merits. It leaves plenty of room for elasticity, but at the same time faces the central point that if Lancashire is to be reorganised, compulsion will have to be applied to recalcitrant minorities. There can be little doubt that if some form of central control such as that adumbrated in the Joint Committee's proposals had been in force in the post-war years, Lancashire would be far more prosperous than she is. It is also worth while to list the safeguards provided for the public interest: the appointment of an independent Advisory Committee; the provision that there must be no discrimination against new firms and no prohibition of expansion; and the ever-present necessity to face fierce competition in the export trade. But when all this has been said, it is still true that the proposals are the latest example of a vicious principle which is slowly spreading over British industry. In one trade after another, the logic of events is compelling the abandonment of unrestricted free competition. But if *laissez-faire* is ruinous in one way, private monopoly is ruinous in another. The community is betraying its own interests if it lends its aid to private industrialists in the creation of legally watertight monopolies and yet leaves them in unrestricted control of their industries and their profits. The examples of steel and milk (to quote no others) show how inadequate as a public safeguard are advisory com-

mittees or even independent chairmen. We may need to be on guard lest, in the effort to organise industries and yet avoid Socialism, we should slowly drift into Unsoci-alism. Let there by all means be 'reorganisa-tion' of industries. Let industry also by all means remain independent of political control. But the com-munity has the right to insist, before its aid is sought, on two principles: that there shall be a limit to the enlargement of profits; and that the public shall be directly represented in the day-to-day management and control of the industry. The cotton scheme, even without these provisions, might well be innocuous and even beneficial. But it would be a bad precedent for other industries where the same natural safeguards are not present."

What I find so encouraging in that is that the periodical foremost in the defence of the orthodox competitive system and most highly suspicious of any proposals of industrial planning should recognise that "in one trade after another *the logic of events* is compelling the abandonment of unrestricted free competition". The question is, therefore,—can we find some method of industrial reorganisation which will enable us to abandon *laissez-faire*, which "is ruinous in one way", without leaving ourselves at the mercy of "private monopoly", which "is ruinous in another"?

I am entirely in agreement with the view that we should be on our guard lest, in our efforts to escape from the obvious and admitted disadvantages of unrestrained competition, we should land ourselves upon the opposite horn of the dilemma and become the victims of rigid unrestrained private monopoly. But it is easy to over-emphasise this danger. In the case of the cotton industry the "natural safeguard" lies in the fact that the industry is catering principally for the

export trade, and its products will thus continue to come into competitive relationship with the products of other countries. This particular safeguard would not apply to an industry catering for the home market and enjoying the protection of a tariff. It should be remembered, however, that tariffs are imposed by the Government on the advice of the Import Duties Advisory Committee and can be removed by the Government, and that the reorganisation enabling powers would also be granted, withheld, or withdrawn if necessary, by the Government, on the advice of the Industrial Reorganisation Advisory Committee.

The Cotton Scheme proposes an Advisory Committee of three independent persons. That would be adequate for a single industry. But if a General Enabling Act was in operation, making the powers available to any industry choosing, by the requisite majority to use them, there would, under our proposals, be a larger Advisory Committee drawing knowledge and experience from a wider field. On such a Committee there would be independent members familiar with the problems of those industries or services whose interests might be adversely affected by the scheme advanced by any particular claimant industry. It is also provided in our scheme, not only that objections to any scheme should be heard from consumers of the industry's products, the workers, or any section of the community likely to be affected, but that these objections may be made at any time after a scheme is in operation.

In the administration of such an Enabling Act there would obviously be close collaboration between the Import Duties Advisory Committee and the Industrial Reorganisation Advisory Committee. An industry

operating a scheme under the Act would do so under the constant attention of the consumers of its products and under the supervision of the authorities responsible for granting the statutory powers and conferring the tariff protection. The exercise of powers under these conditions cannot even by the widest licence of speech be fairly described as "the creation of legally watertight monopolies" leaving private industrialists "in unrestricted control of their industries and their profits".

It is true that our proposals do not provide for limitation of profits or "that the public shall be directly represented in the day-to-day management and control of the industry". I do not believe that this form of control is either necessary or advisable. What could it achieve that cannot be obtained by the supervision of the responsible authorities I have mentioned? Interference in day-to-day management is precisely what anyone familiar with business life would try to avoid, and indeed what Parliament has sought to avoid, even in the nationalised or public utility concerns that have been set up in recent years. The community is not concerned with the details of day-to-day management. It *is* concerned with broad questions of policy, and particularly with the selling price of the products of an industry. It *is* concerned that it should not be robbed by high prices which serve either as a subsidy to incompetence or for the enrichment of profiteering industrialists. But the very existence of excessive surplus profits would attract the attention of the supervising authorities or the consumers who were paying the unnecessarily high prices.

The fact is that excessive profit is the least difficult matter on which to keep a check. The real difficulty

lies elsewhere. Could we be sure that an industry exercising these powers was continuing to increase its efficiency? Could we be sure that new methods and inventions were being usefully exploited? Could we be sure that the drafting of new entrants into the industry with new ideas and initiative was being properly facilitated? These questions are much more important and realistic than the superficial questions of excessive profit or day-to-day management. It is in regard to these questions of long-range policy that we would have to rely firstly on the sense of social responsibility of the managers, and secondly upon the expert scrutiny of the buyers of an industry's products. From my own knowledge of the managerial class in industry, I am confident that, in the overwhelming majority of cases, they have a sense of social responsibility and that their interest, like that of most of us, is to do their job in life efficiently and well. As to our second line of defence—*i.e.* the scrutiny of consumers and the advisory bodies—it should be remembered that a very high proportion of industrial output is marketed with industrial consumers. These industries know a great deal about the fair prices for what is, in effect, their raw material. They can be trusted to know when they are being exploited and to take advantage of their power to protest in the right quarter.<sup>1</sup>

Another quotation regarding the Cotton Industry Enabling Bill proposals summarises the elaborate safe-

<sup>1</sup> There are, of course, other industries catering directly for the individual and personal final consumer which are not organised in the way that an industry using the products of another industry as its raw material would be, and of these I shall have something more to say when we come to a consideration of the action that should be taken in regard to the provision of minimum supplies of the consumers' goods and services necessary to the maintenance of physical efficiency.

guards that have been included. The Cotton Industry Bill is almost exactly in line with the Bill introduced into the House of Lords by Lord Melchett on behalf of the Industrial Reorganisation League, but, as it was drafted about three years after Lord Melchett's Bill, the authors have had the advantage of benefiting from later criticisms and discussions, and it contains some improvements which I would support. The quotation, which follows, is from a letter to the *Manchester Guardian* of March 9th, 1938, from Mr. Forrest Hewit of the Joint Committee of Cotton Trade Organisations. He says:

"It must be remembered that the Cotton industry is really a group of related industries, each with its own problems and its own financial structure. The Government has made it clear, however, that sectional schemes must be subordinated to the general interests of the industry. . . .

"Schemes may be prepared on behalf of any section for any of the purposes set out in the bill, which may be summarised as reduction of surplus capacity, compensation for owners and/or operatives rendered idle through the operation of a scheme, formation of pools and allocation of quotas, establishment of standard qualities, regulations governing discounts and other conditions of sale, minimum prices and margins, legalisation of wage or other agreements between operatives' and employers' organisations.

"If a scheme comes within the powers provided in the bill; if it contains the safeguards stipulated in the bill; if it is approved by a majority of the section concerned (according to capacity, output, turnover, or whatever measure best fits conditions in that section); if after submitting it to the operatives in the section concerned and to all other sections of the industry the Cotton Industry Board decides to recommend it; if an

evolutionary advance of the economic system as a whole. In the proposals which I shall make in this regard, it will be assumed that these elementary tasks are being carried out; that the case for an Enabling Bill has been conceded and that we can consider the problem of general economic planning on the assumption that industries are having the assistance of legislative powers necessary to bring their organisational structure and directive authority up to date, and into harmony with the requirements of modern conditions.

*The Position of Labour under an Enabling Act.*—We are to discuss this question of national planning in a later chapter, but there is another introductory point which is of great importance. If national planning is to serve, rather than militate against, freedom, then it is important to consider what part is to be played in the planning organisation by the millions of human beings who spend the greater part of their daily lives in the industries and services to be planned. What provisions can be made to extend the frontiers of democracy from the mere right to vote in Parliamentary elections to a real share in the control over the circumstances of their daily life by those employed in the offices, workshops, and factories?

I have suggested that the owners or directors of industries should be organised in their industrial capacity to eliminate wasteful redundancy and, through mutual co-operation, to serve their common interests. By the same logic, I suggest that the workers must be organised in their capacity as workers in the various industries, so that they may be able, by collective bargaining, to defend themselves against unfair and unscrupulous conduct by the owners, or managers,

or their subordinates, responsible for the governance of working conditions and remuneration. There are obvious difficulties in the way of too wide an extension of industrial democracy in regard to the managerial functions to be performed; for too much democratic interference would militate against efficiency. But in estimating the efficiency of the management, regard should be paid to both sides of the balance-sheet. To make profits by inflicting injury upon the standards and conditions of the workers employed may be regarded as efficiency in the board-room of an unscrupulous firm; but it cannot be so regarded in a more human and a truly national estimation of the social purpose that production ought to serve.

The defence organisation of the workers is their free Trades Unions. These constitute the mechanism through which the co-operation of the workers can be obtained on a wide range of questions, intimately affecting their lives, but in no way interfering with the efficient business management of a concern. If it is right to provide statutory powers to enable a 75 or 80 per cent. majority of owners to enforce their policy decisions upon a recalcitrant minority in their ranks, so must provision be made to endow with equal authority those Trades Unions which are chosen by the workers as the organs through which they desire their working life to be regulated.

I should, therefore, be in favour of adding to the Industrial Reorganisation (Enabling) Bill a section which provided that, where the powers of the Bill were employed by any industry to bring the owners into a common organisation, it should automatically follow that the Trades Unions should be recognised for all purposes of negotiation, that facilities should



be provided for the recruitment of all the workers as members of their Trades Unions, and that appropriate conciliation machinery should be set up. Moreover, if as a result of a ballot 75 or 80 per cent. of the workers declared themselves in favour of that course, membership of the Trades Union should become compulsory in the same way as adherence to a scheme would be compulsory upon employers.

To take full advantage of this reform it may be necessary for some adjustment to take place in the Trades Union structure. But it has usually been found that, when an industry is well organised both on the management and the labour sides, there is no difficulty in making arrangements for the accommodation of different Trades Unions and the setting up of machinery for conciliation. The labour history of the Railway Companies since amalgamation amply illustrates this point. Where employers and workers are both fully organised, agreements are easily negotiated covering wages and conditions. From this readily grows up a system of responsible works councils or other conciliation machinery for the avoidance of friction and the humanising of factory and workshop life. It may be objected that this tends to perpetuate the existence of employers' and workers' organisations standing in a relationship of antagonism to one another. But there is only antagonism in so far as there is a conflict of interests; and if there is a conflict of interests, then it ought not to be suppressed, but should be recognised and provided for on organised lines.

In any proposals that are advanced in regard to the more efficient organisation of industry, what differentiates a democratic from a tyrannic system is the existence of Trades Unions, freely chosen by the workers

themselves, and the preservation of the right of the worker to withdraw or withhold his labour. I would rather fight against any reconstruction of industry, and tolerate inefficiency, than have any part in a policy of reconstruction that threatened to injure or impair, in any way, the freedom and rights which labour now possesses. I regard it as fundamentally important that, with every step we take in the tightening up of the efficiency of industry, an equal step forward should be taken in facilitating the development of the democratic factor in industry by recognition and encouragement of the workers' Trades Unions. In industries which had thus been reorganised, both in regard to their capital and their labour sides, it should not be difficult to find a method of bringing labour more and more into active partnership on the basis of a policy which sought to serve the common interests of both management and labour.

This question of preserving working-class freedom and seeking to develop industrial democracy, arises in connection with every aspect of a policy designed to secure greater economic efficiency. It is, in fact, the central issue to be kept in mind. It is easy to formulate a policy which aims only at efficiency on Fascist lines; it is easy to draft Communist resolutions and base your activities upon tactics which aim only at the overthrow of the present owners of industry, imagining that then everything will redound to the welfare of the workers employed. But, if democracy and freedom are not merely regarded as convenient catch-cries to enlist support for political ends, if they are felt to be vitally important issues in relation to the whole future of mankind, then it is essential that we should be prepared to moderate mere mechanical efficiency by subordinating

utility control. To clarify the point I am making, we might list the different categories of schemes as follows:

- (a) Schemes under the permissive Enabling Act, which would be drafted by the industries themselves and which would vary according to the special needs of an industry and the degree of unanimity that could be obtained.
- (b) Other schemes under the permissive Enabling Act in which Parliament, through an Economic Planning Authority,<sup>1</sup> would take a special interest, because of the size or importance of the industry. In these cases the Economic Planning Authority might not be content to play a passive rôle, but would itself assist in the drafting of schemes and in efforts to *persuade* the industry to accept them.
- (c) Special schemes requiring separate legislation for the *compulsory* reorganisation of industries and services regarded as being of key importance to general economic prosperity, and where the nature of the reorganisation might involve the interests of more than one industry.
- (d) The extension of Statutory regulation or public utility control to industries and services that have become involved with the public interest or that now require to be directed towards the service of ends for which private ownership and the profit-making motive do not supply the right dynamic.

No further comment is necessary regarding (a) and

<sup>1</sup> The functions of this body will be explained in Chapter XIII.

(b). It is industries and services which may have to be dealt with under (c) and (d) that we might now consider more fully. One of the evils of our prolonged reluctance to give statutory recognition to the need for industrial reconstruction is that the tendency towards the growth of private monopoly has been encouraged. I describe it as an evil, not because I consider that there is anything reprehensible, or blameworthy, in the action that has been taken by certain industries to achieve a higher degree of orderliness and integration, but because I think it would have been better if these integrations had taken place within the framework of legal rights and social obligations which I have been attempting to define. Opponents of the policy have charged me with the desire to create private monopolies. In fact, it is just the opposite that is true. Because we did not recognise the inevitability of the trend towards integration and provide for its regulation under the supervision of law and public authority, we now have it accomplished, in a number of instances, without the restraints of law and without provision for any form of public accountability. Those who have too cursorily examined and too lightly condemned what I have been advocating in recent years would do well to reflect upon the consequences. One cannot stop a process of growth and evolution by a high-minded disapproval of it.

But, now that private monopolies, or near-monopolies, have grown up (not because the policy I have been advocating *was* adopted, but because it was *not*), the question remains whether they are likely to thwart the general purpose of the economic policy which we are elaborating. That purpose is economic stability at the highest possible level of output. It depends, I

have argued, upon equilibrium. Are the private monopolies likely to distort the balance by trying to attract to their own pockets more than their proper share of the values that are being created?

On the face of it, they appear to have the power to do so. But there is a great deal of hysterical exaggeration in the arguments of the gloomy prophets. The fact is that, apart from the external pressure of law, there are very definite limits to the powers of a monopoly to rob the consumers of its products. It is quite fantastic and unreal to picture a situation in which unscrupulous monopolies would be preserving their own wealth by drawing tribute from an impoverished community. They cannot escape from their dependence upon the consumer. Their income depends upon the sale of their goods. If prices are too high, their sales will fall. When their sales fall, they have to reduce production, and, as they reduce production, they will be caught on the other horn of every producer's dilemma—*i.e.* the unit costs of their overheads for management and the maintenance charges on fixed capital (machinery, plant, etc.) will increase. A monopoly can enrich itself at the expense of the consumer within the natural limits that are determined by the volume of demand on the one hand and the "efficiency load" of production on the other. The monopolies of today, moreover, are mostly what might be called co-operative monopolies or trusts. That is to say, they are formed by the linking together in common agreement of a number of different firms. The nearer any of them approaches, therefore, to the full exercise of its rapacious powers within the limits that have been mentioned, the greater will be the danger that its *discipline* will break down.

That aspect of the powers which a monopoly can exercise might be regarded as important from a point of view of social justice. It is not very important from the point of view of economic stability. The owners of the monopoly would be richer and the rest of the community correspondingly poorer, but *if all the incomes were being spent*, either as living expenses or as investment, the equilibrium of the economic system would be maintained. There would be no evil consequences in terms of unemployment or reduced production.

The next question is in what way might uncontrolled private monopolies militate against economic stability and prosperity? This is our real concern. The danger, as I understand it, is one of rigidity in the price structure. Some of the monopolies or near-monopolies that have grown up recently are in industries producing constructional materials. In the event of another trade recession, they would seek to protect themselves from loss by attempting to maintain prices at the old level for some time after the demand for their products began to decline. This would accelerate the decline and tend to deepen the depression. The industries using constructional materials would be ceasing activity on all production that was likely to be unprofitable. The volume of *profitable* production is determined by the amount of products that can be sold at a given level of prices. If prices could be reduced, the fall in demand might be checked. But if the prices of materials controlled by monopolies did not fall as rapidly as they might have done in the absence of monopoly control, then to this extent the prices of the products of the user industries would also be maintained, and the volume of production that they would be able to conduct at a profit would be reduced.

This argument has great force and profound significance in an unplanned economy, where it is of vital importance that these adjustments should take place (indeed they can only take place) in response to the *automatic* pressures upon which such an economy must rely. We shall discuss the whole subject much more fully in Chapter XIII where it properly belongs, for it obviously raises a problem of key importance which a planned system would have to solve. The case *for* planning is that these automatic pressures are not in fact operating satisfactorily today, and that, in so far as they do act, it is at the expense of great dislocation and suffering. Our economic system today is hovering half-way between *laissez-faire* and planning. Our present situation is not satisfactory. We have argued that we cannot go back to *laissez-faire*. If we are to go forward to comprehensive planning, then this is the key problem we must solve.

It must not be imagined, however, that any monopoly, however powerful, could completely and permanently withstand the pressures toward adjustment during a trade recession and maintain its prices. In the long run its costs and prices would be forced into conformity with the levels prevailing in the economic system as a whole. Sooner or later it would have to bear its share of the general loss due to reduced activity. Monopoly-controlled industries are thus as much concerned as everyone else in the maintenance of a high level of business activity and of stability. It would be very short-sighted of them, therefore, to refuse to co-operate with a planning authority, which, by seeking to serve the interests of the community generally, would be creating and maintaining the conditions in which monopolies would also benefit. In so far as this co-operation

was freely offered, there would be nothing seriously harmful to a planned society in the existence of private monopolies. In so far as their co-operation was withheld and they engaged in anti-social activities, then the State would be by no means powerless to compel their obedience to a policy pursued in the common interests.

Most of the monopolies or semi-monopolies in the vital spheres of production are enjoying advantages of one kind or another which Parliament confers and which Parliament can withdraw. An industry benefiting from any kind of State subsidy, for example, would not be able to persist in a policy considered to be detrimental to the public good. An industry enjoying tariff protection could be coerced by the threat to withdraw protection and allow cheap imports to flow in from abroad. In addition to these powers, first of persuasion and second of coercion, it is to be remembered that it would be possible for Parliament at any time itself to take over control, or set up a public utility to take control on its behalf, of any industry or service that persisted in behaving in a way that was judged to be detrimental to the general interests.

The above has arisen out of our discussion of industries that have so far been guilty of no more serious crime than that of having achieved for themselves the integration that we have held to be desirable.

There are other industries whose reorganisation is of great importance to the community and which have not reorganised to the extent that is desirable. Some of these may be expected to respond when the powers of the Enabling Act are available. Others may not be able to do so, either because of internal conflicts or because the kind of reorganisation necessary might involve interests outside of the single industry. These



will be cases that will call for special legislation or some form of external assistance. All the powers in question apply equally to industries which have organised themselves on monopoly lines and to industries which are lagging behind and failing to achieve integration.

Some considerable progress is, however, being made. Reference has already been made to the cotton industry scheme. In addition, there is the iron and steel industry, which, after great initial difficulty, has been reorganised under the direction of a central council, the British Iron and Steel Corporation, with an independent chairman, who is in constant touch with Government authority through the Import Duties Advisory Committee and other Government departments. The Corporation "now covers and controls every activity of the industry, from the purchase of raw materials to the expenditure of large sums of money on research".<sup>1</sup> It remains to be seen whether this Corporation can be trusted to pursue a policy which will be beneficial to the national economy as a whole, as well as to the interests of the iron and steel industry. At any rate, it has already achieved good results in the orderly and rational development of the industry, and, if its conduct should become open to complaint by the consumers of the industry's products, an avenue for the lodging of such complaints is provided by the Imports Duties Advisory Committee.

In the shipbuilding industry, great progress has been made by Shipbuilders Securities, Ltd. in their effort to bring the productive capacity of the industry into closer conformity with market demand. The work they

<sup>1</sup> Mr. C. U. Peat, M.P., at Darlington Rotary Club, October 23rd, 1937.

are doing invites, of course, the bitterest kind of antagonism. They buy up redundant shipyards in order to close them down. By doing so, they create derelict or depressed areas, where the working population find themselves with little prospect of ever obtaining employment in the same district again. It is perfectly true that, in a well-regulated economy, drastic action of this kind would be accompanied by plans to deal with the resultant social problem. The cure, however, does not lie in insisting that the shipbuilding industry, or any other industry for that matter (for the same consequences result from the rationalisation process in other industries, even if they are less spectacular and the process is less deliberate) shall remain inefficiently organised, with scattered and redundant units all over the country.

The solution lies in the creation of a national co-ordinating machinery through which the plans of bodies like Shipbuilders Securities, Ltd. could be made known and the reconstruction carried out in accordance with a comprehensive plan of social adjustment.

The time to deal with the problem of distressed areas is before they are created. If all the main industries were integrated as self-controlled units of a national economy, and policies were being co-ordinated by a National Economic Council, then these changes, which, however grievous their immediate consequence, are right and proper measures, judged from the point of view of the industry's struggle for efficiency, might be carried through in an orderly way, and provision be made either for the abandonment of an area altogether, or for the drafting in of new industries to take the place of the old.

*Statutory Regulation and Public Utility Control.*—In

the foregoing sections of this chapter we have discussed the industries that would be dealt with under the Enabling Act, (a) on their own initiative, and (b) with the assistance and persuasion of the Economic Planning Authority, and industries for which special legislation might be required for their compulsory reorganisation. It remains for us now to refer to industries or services that have become involved with the public interest and that now require to be directed towards the service of ends for which the profit motive does not provide the right dynamic.

Our survey of the extension of public authority in the economic field in Chapter VIII has shown the tendency that has operated in the past for some industries and services to reach a stage when action became necessary. That tendency will continue to operate in the future. The reconstruction of industries in the different categories of schemes that I have listed will not mean that they will remain set for all time in those categories. To convey the idea of change and movement I referred in Chapter IX to the phases that are passed through in what I called the "life cycle" of industries. This process of development would still go on. As I see it, industries that are now in the stage of initiation and expansion may, as they grow older, reach a stage when they will require to use the powers of the Enabling Act. Similarly, some industries that may now be organised under the Enabling Act, or by special legislation, or under the private monopolies which we have been discussing, may reach a stage later on when it will be thought necessary and desirable that they should be brought under statutory regulation or public utility control.

In what follows, I shall be giving examples of some

industries that seem to me to require to be included in this latter category immediately. It will be understood, however, that I do not regard this as a final list. In fact, the whole idea I am trying to convey is that there is no finality, and never will be, in the adaptation of forms of ownership, management, and control. As conditions change, as scientific and industrial technique advances, and as society itself seeks different objectives in its economic life, the forms of organisation will have to be adapted. It is because of the need to preserve this flexibility that a rather elaborate presentation of industrial policy has been necessary.

There are really two main principles that govern a decision as to whether an industry or service must pass under some form of public regulation or control. They are:

- (a) Where it is necessary in order to fulfil the requirements of some new conception of the duties and responsibilities of the State towards its citizens; and
- (b) Where it is necessary that an industry or service should be conducted with a view to the achievement of beneficial economic and social results for the community generally, and where its own profitability may be a secondary consideration and an inadequate test of its efficiency.

In the first group (a), for example, would come such a proposal as that for the nationalisation of Industrial Assurance. This change, which I do not intend to discuss here, may have become necessary in the new conditions of today, not for economic, but for humanitarian reasons, based upon new conceptions of social justice. In Part III of this book we shall be discussing

the reorganisation of some branches of the processing and distribution of certain foodstuffs. These proposals will be justified not by arguments regarding technical efficiency alone, but mainly by considerations of the urgency and importance of a satisfactory nutrition policy. But it is the industries and services in the second group (*b*) that really belong to the subject of this chapter.

Not long ago, for example, Parliament decided that coal and other mineral deposits should become the property of the State. This ownership has been acquired not primarily for its own sake, or because of any moral arguments regarding private ownership of this form of wealth, but because unification had become essential to the wider purpose of Coal Mines Reorganisation. For similar reasons, I believe that a stage has been reached when coal mining itself should be rationalised under public utility ownership and control. The product is, and is likely to remain, vitally essential to our industrial life. Mining has, for the past fifteen or twenty years, encountered all the difficulties that beset an industry in the last phase of the cycle we have described. The industry has struggled against those difficulties, and great headway has been made in the modernisation of the mines in recent years. But the multiplicity of units, the lethargic resistance to change on the part of a minority, the fact that the profit from coal has largely shifted from coal mining to coal utilisation, represent forces and impediments that have been far too much for the progressive elements. The mining industry as a whole is still badly organised, despite the progress made by many units; the mine workers are enduring conditions of poverty that are shameful in a highly organised and well equipped community.

Meantime science has been busy finding new and amazing uses for coal; the next decade will open up tremendous possibilities for coal utilisation, not only as a source of heat and power but in the production of an infinite variety of products which will be used by new industries and enterprises as their raw material. In this industry the shift of the dynamic urge has already taken place. The field for vigorous private enterprise and initiative is opening up in the utilisation of coal products.

In order that this drive may be encouraged, the State, it seems to me, should sweep away every obstacle to the reconstruction of the mining industry, and itself take over the power and responsibility of a rational exploitation of our coal resources. Through the efficient business management of a public utility concern, it could secure to the new industries a reliable and cheap supply of the raw materials they require, and gain for the workers in the mining industry the higher standard of life to which they are so justly entitled. This is an industry that has long passed out of the phase in which social purposes can best be served by the private profit incentive. It ought now to be absorbed into the sphere of socialised concerns, conducted in the light of wider national considerations—not making its first objective the securing of a profit on its *own* operations but seeking to serve other industries and assist *them* to become profitable.

In regard to the other branches of the heat and power, or fuel, industries the Government is now engaged in perfecting its scheme for the rationalisation of Electricity Distribution on what virtually amounts to public utility lines. If coal mining were brought under national ownership and public utility manage-

ment, with the coal deposits and the coal mines publicly owned and managed, the production of electricity partly owned and completely dominated by the Electricity Board, and the distribution of electric light and power rationalised under the statutory scheme now proposed by the Government, we should be in a strong position to pursue a really well co-ordinated national fuel policy.

Another example of a similar kind is transport. We are confronted today with the problem of the Distressed Areas, and linked with it is the question of planning the location of industry and the geographical distribution of our population. Attention has repeatedly been drawn to two aspects of this problem which show its profound social importance. On the one hand, we have areas in which a great deal of social capital has been expended on the provision of houses, roads, water, gas and electricity supplies, health services and amenities, schools, churches, libraries, and the whole network of economic, social, and cultural institutions and services that are a necessary part of the life of a community. Some of the areas so equipped have become derelict or denuded. On the other hand, an increasing proportion of the population is drifting to London and certain large cities in the provinces. These places are becoming over-crowded, the cities grow denser, the country boundaries are pushed further and further away from the city centres, housing accommodation has to be supplied on the city outskirts, transport has to be provided from the city centres outwards in an ever-widening range, the congestion in the streets and in the public vehicles becomes fantastic. The health of the people is menaced by the growing strain of these conditions, and the great

sprawling open cities would be an invitation to air attack in the event of war. So serious has the position become that the Government has set up a Royal Commission to examine the whole problem and recommend what action should be taken to deal with it.<sup>1</sup>

It is generally agreed that the geographical distribution of population is largely determined by the location of industry; people live where they work. But what is it that determines the location of industry? An indication of the answer to this question is to be found in the reports that have been issued of the reasons given by persons who have set up new factories in various parts of the country in recent years. These reasons are partly economic and partly social or personal. The economic reasons for the establishment of new factories near to London or other large cities are proximity to a large market and consequent saving of transport costs. We can ignore for the moment the social or personal reasons, such as the desire for social life in a town, or proximity to friends and relatives or to golf courses, theatres, and the like. These are understandable human reasons; but, presumably, if we achieved a wiser distribution of population there would be a corresponding distribution of works directors' relatives and of sporting and theatrical amenities, and, if we had solved the major economic problems facing us, we ought to be able to make the areas of population away from London and the other large cities cleaner and better places to live in. The basic reasons are economic—proximity to

<sup>1</sup> In evidence submitted jointly by the present author and Mr. J. Ronald H. Cartland, M.P., to the Royal Commission on the Geographical Distribution of Industrial Population, the whole problem is more fully discussed.



body, acting, in the first place, only in an advisory capacity. Recommendations regarding the wisest procedure could emerge only from special study by an expert body. The advantages that would accrue from proper co-ordination have been made plain by the investigations already conducted by the Royal Commission on Transport and the more recent conference on Rail and Road Transport. If we were really determined to deal with the problem with an urgent sense of its relation to all its economic, social, and strategical aspects, I have no doubt that a workable scheme could be formulated. Nor do I think that such an effort would fail to enlist a great deal of expert assistance from those now engaged in different branches of the transport industry.

In order to expedite transport reorganisation, the Government should be prepared to give generous financial aid more especially for the purpose of promoting experiments in an entirely new system of transport charges, which would seek to minimise or eliminate distance as a determinant of those charges. It is, in my opinion, an aim which should be pursued, even if it were found to involve some form of State subsidy. It would be better to spend money for this purpose and win freedom to determine deliberately the geographical distribution of the population, the desirable size and location of our towns, and the best means of preserving the amenities of the country surrounding the towns, than to continue our present huge expenditure in building sprawling areas of brick. Today our towns are becoming larger and larger prisons within which an increasing proportion of our people live in complete isolation from the countryside. It is, moreover, costly. A wiser direction of expenditure on the lines I suggest

would liberate them and, by distributing them more widely over the country, improve their health and virility.

### SUMMARY

In attempting to define the changes that seem to me to be essential, I have outlined a policy which borrows both from Capitalist and from Socialist schools of thought. I have envisaged an economic structure in which provision is made for different forms of ownership, management, and control of industries and services at different stages of development. The whole structure of the policy is derived from a recognition of the process of growth and development through which industries and services pass.

It is a threefold policy which might be defined briefly as an appreciation (1) that new industries, in the early stages of their development and during the period of their rapid expansion, are best left to the vigorous initiative of private enterprise and uncontrolled competition; (2) that in the later stages, when they have become more or less fully developed, and when their productive capacity begins to threaten to outstrip market demand, they require to achieve integration and to adopt a new form of corporate organisation making self-discipline and self-government possible under the statutory provision of an Industrial Reorganisation (Enabling) Act; and (3) that certain industries and services which are of key importance to the vigorous economic life of the community, and which have reached a stage of development when their conduct requires to be governed by much wider social considerations than the profit-making incentive alone will provide, should be brought under either some

suitable form of public ownership and management or, in certain cases, a form of statutory control or supervision which may not involve public ownership.

In addition to the proposals that are applicable to these three rough categories of industries and services, I shall propose machinery for the co-ordination of policy within and between them, and for a general co-ordination of financial, industrial, and political policy.

That is the general economic and social theory arising from my view of the situation. It is not a new theory so much as a synthesis of old and well-established theories.

It admits the truth of the powerful arguments of orthodox economists of the *laissez-faire* school, but, it says, these arguments in favour of private enterprise and the free play of competitive forces no longer apply to the whole range of economic effort. They do apply to those industries and services which, because they are in their expanding phase, are able to repeat today the story of vigorous self-help, redounding to the advantage of the community, that was characteristic of Capitalist enterprise, over a wide field, during the last century.

It asserts the truth of the new conceptions of planned Capitalism, as expressed in the efforts of those engaged in many of the older industries for their corporate organisation, and planned direction, as integrated self-governing entities; but, it says, all industries are not confronted with the same organisational problems and this conception should only be applied where it is suitable and socially beneficial.

Finally, it recognises the truth of the Socialist analysis which holds that private Capitalism achieved great results in the vigorous exploitation of new re-

sources during its period of expansion, but that it cannot continue to produce satisfactory results when it has passed into the phase of deceleration and decline. It repeats, however, that this analysis is only true of some industries, and the Socialist conclusions arising from it should not be applied to those enterprises that are going through the phase of rapid expansion today. The Socialist remedy should, on the other hand, be accepted in regard to the industries and services to which the analysis does apply, that is to say where it is obvious that private enterprise has exhausted its social usefulness, or where the general welfare of the economy requires that certain basic industries and services need now to be conducted in the light of broader social considerations than the profit motive provides.

The prices at which they are offered for sale represent the sum total of the production costs that have been enumerated. There should exist, therefore, in the hands of the population a sufficient amount of money to buy all the goods and services that have been produced. Money, in this phase, has merely acted as a nominal recorder of costs.

It is at this point that the law of supply and demand makes itself felt. If the goods and services had all been produced in exactly the right quantities they would all exchange for one another in the market, at the prices which exactly covered the costs of production, including, of course, profit. But, if too much has been produced of one thing, and too little of another, this may be reflected by the consumers' "bidding up" the price of the scarce article by their competitive readiness to buy it, and allowing the price of the too plentiful article to fall by their lack of readiness to buy more than the normal quantities. The rise in the price of the scarce article increases profits and *encourages* more capital and labour to be employed in its production. A greater quantity is thus produced and the price is restored to its proper level. On the other hand, capital and labour is *discouraged* from the production of the plentiful article; the volume of supply declines; it becomes less plentiful, and the price is raised to its proper level. In this case the price is registering, not merely the costs of production, but the state of the market, and money is acting as a convenient medium of exchange which facilitates the exchange of goods and services for one another.

It will be understood, of course, that this adjustment of production to demand would not be achieved without difficulty, once disequilibrium had occurred. It would

mean, probably, reductions of wages and unemployment among the workers engaged in producing the over-supplied article. The entrepreneurs may have made losses instead of profits. The reduced volume of production would mean reduced orders for materials. The loss of incomes might be spread over a large number of people. Their purchasing power over other goods and services would have fallen and all the other prices (of the goods they would in normal circumstances have purchased) would be adversely affected.

If the miscalculation were small and the surplus could quickly be cleared off the market by increased consumption at the lower price level, there would, perhaps, be no more than a tremor of disturbance throughout the economic system. But if there were serious miscalculation and the surplus could not be absorbed, even by an expansion of demand due to lower prices, then the disequilibrium would inflict serious injury, not only upon those directly engaged in the production of the over-supplied commodity, but in widening circles throughout the whole economy. It is like throwing something into the middle of a placid lake. A small pebble will produce only small ripples of disturbance which may shade off quickly and be absorbed in the general calm. But an avalanche of rock from the hillside will change the waters from placidity to wild confusion. The relation of all this to the plans of industrial reconstruction will be evident. Integrated and well-organised industries would be more likely to anticipate market requirements correctly than a multitude of competitive units in the same industry.

Our next step forward will indicate something of the difficulty in maintaining equilibrium between supply and demand and show how easy it is for these disturb-

ances to occur. We have been assuming that all the incomes distributed in the course of production and distribution were being spent. Let us continue this supposition in the meantime, but remembering that, in order to maintain equilibrium, the rate (or speed) at which they are spent would have to be exactly equal to the rate (or speed) at which the goods they had to buy back on the market were being produced. That is to say, the rate of spending must equal the rate of production. But all the incomes distributed in the way described are not, in fact, spent immediately on consumption goods. Normally, a part of the income is saved. In the process of saving, a certain amount of purchasing power is withheld from active demand for goods and services. If it is hoarded, in the sense of the owner keeping it in his own possession, then obviously the amount of money entering into the purchase of goods will be less than the amount needed to buy all the goods coming on to the market at prices covering their full cost. The effect of this will be to create a disturbance similar to that described above.

In practice, savings are usually deposited in a bank, or paid over to an insurance company, or go to repay mortgages on a dwelling-house, or something of the kind. In so far as they are employed for such purposes as the repayment of loans, or the purchase of insurance premiums, there is merely a transfer of purchasing power from one owner to another. The individual may regard this as saving but, in fact, he is merely transferring his money to someone else who may or may not save it. The lender who has his loan restored may or may not make fresh loans. The insurance company will spend part of the premium in connection with

the management of their business and invest the remainder against the death of the insured person.

When the individual deposits the money in a bank, however, he is performing an act which can be regarded as saving from the point of view both of the individual and the community. The question is what happens to the money once it is in the hands of the bank. If the owner of the bank deposit is a person with large financial resources, he will very probably quickly transfer it from the bank to the purchase of securities on his own account. He will invest it. The small depositors may merely leave the money on deposit account at the bank and be content with the deposit rate of interest the bank pays. The bank will deposit the money to its own account at the Bank of England and it will then rank as an asset of the bank's against its liability to the customer. On the basis of this deposit at the Bank of England the Joint Stock Bank will then be ready to increase its lending to other customers seeking advances, or will itself purchase securities. In other words, the bank will either invest it or lend it to a customer who wants to invest it.<sup>1</sup>

If all this happens—and we shall find out later that it does not always happen in the smooth and efficient way that we should wish—the total amount of money saved is restored to circulation from which the act of saving threatened to withdraw it.<sup>2</sup> By investing the money it is either employed as working capital and paid out in the purchase of materials, wages, etc.,

<sup>1</sup> This operation will not have increased the total amount of deposits in the banking system as a whole. It will merely be a transfer of deposits from one owner to another.

<sup>2</sup> There is, of course, the possibility of actual hoarding of currency, but in this country this is negligible and, for practical purposes, can be neglected.



which then enter into effective demand for consumption goods, or it is employed as fixed capital and used for the purchase of capital goods. The price of these capital goods—tools, implements, or equipment for the production of other goods and services—is made up of the production costs we have already described, and the money paid for them goes towards the payment of the incomes to the various factors of production.

It will be seen from this simple example that it is very important that savings should be equally counter-balanced by investment. If all the money saved is not invested—*i.e.* spent on the purchase of capital goods or distributed as incomes to other people by being used as working capital—there will be an insufficient amount of purchasing power available to buy all the goods and services offered for sale at the prices covering their costs of production. If savings are hoarded, or if there is a time lag between saving and investing, there will be a shortage of purchasing power, prices will fall, production will tend to be discouraged, and labour and capital resources will not be fully employed. Equilibrium is restored by reducing the volume of goods to correspond with the reduced volume of money actively circulating in demand for goods.

We might again relate the process back to the proposals for industrial reorganisation, for it will be seen that the importance of maintaining a balance between savings and investment is similar to the importance of maintaining the proper proportions between the production and demand both of consumption and of investment goods. It is the function of the financial system to keep money circulating in the purchase of goods and services. It is the function of industry to see to it that

these goods and services are produced in the proportions in which they will be required.

In the earlier chapters, reference was made to the period of rapid expansion in the Capitalist system. The phrase was used to describe the period of rapid accumulation of capital resources. The driving force of the system was, and still is, the profit incentive. Each individual was striving to increase his personal accumulation of wealth. This accumulation of wealth can take place only by the ownership of capital resources; and these capital resources are the machinery, equipment, and other means of production. By investment of the surplus incomes—*i.e.* surplus to personal requirements of consumption goods and services—in the creation of these new means of producing more wealth, the productive capacity of the nation, and of the world, has been enormously enhanced. With every step forward in the accumulation of capital resources, there has been an increase in our power to set aside greater surpluses for investment. In the period of expansion, investment opportunities were easily found. Is it not possible that we are facing a situation now in which our greater power to produce surpluses for saving will not be equalled by the opportunities presenting themselves to the individual investor for profitable investment? There is just a suggestion of this in a statement in Mr. Keynes's latest book, where he says:

“Not only is the marginal propensity to consume weaker in a wealthy community, but, owing to its accumulation of capital being already larger, the opportunities for further investment are less attractive unless the rate of interest falls at a sufficiently rapid rate. . . .”<sup>1</sup>

<sup>1</sup> J. M. Keynes, *The General Theory of Employment, Interest and Money*, p. 31. (Macmillan & Co., Ltd., 1936.)

And when we read on to discover what governs the rate of interest we find—

“Thus the rate of interest at any time, being the reward for parting with liquidity, is a measure of the unwillingness of those who possess money to part with their liquid control over it. The rate of interest is not the ‘price’ which brings into equilibrium the demand for resources to invest with the readiness to abstain from present consumption. It is the ‘price’ which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash;—which implies that if the rate of interest were lower; *i.e.* if the reward for parting with cash were diminished, the aggregate amount of cash which the public would wish to hold would exceed the available supply, and that if the rate of interest were raised there would be a surplus of cash which no one would be willing to hold. If this explanation is correct, the quantity of money is the other factor which, in conjunction with liquidity preference, determines the actual rate of interest in given circumstances.”

Thus, on the one hand, we have a need for the rate of interest to fall in order that industrialists or other entrepreneurs may be induced to make use of the available capital for productive purposes, and, on the other hand, a possibility that this rate will not be high enough to induce those who possess money to surrender liquidity in favour of productive investment.

These comments bring us to the third function of money—*i.e.* money acting as a store of value.

“The use of money as a store of value takes the form of idle bank deposits, or, worse still, of hoarding of currency. In so far as the units of measure thus stored were previously engaged in the measuring of goods and services, their withdrawal into idleness throws upon

the remainder—*ceteris paribus*—the burden of measuring an as yet unchanged volume of goods and services, and unless more frequent changes of hands occur, *e.g.* unless the velocity of turnover of this remaining volume of money units increases correspondingly, the result is that fewer units of the measure seek to be exchanged for goods. Hence these latter will depreciate in terms of the unit of money, more goods will be equivalent to the same number of units of money, the price level of goods tends to fall.”<sup>1</sup>

This view is reinforced by another writer on the same subject who states that:

“Keynes’s new book, *The General Theory of Employment, etc.* (1936), introduces the term ‘liquidity preference’, but it would appear merely to be another name for what Gesell called ‘hoarding’. Taken in this sense, excess of saving over investment (hoarding) means a situation wherein the amount of existing money, necessary for buying the final output over a certain period, is reduced through being kept idle. A progressive scarcity of active money occurs during every depression and continues until confidence has been restored in the manner already described.”<sup>2</sup>

I have dwelt on this subject because its importance could hardly be exaggerated. In a simple primitive economy, the question of savings and investment is not very important. But economic progress has meant that we have cheapened the cost of producing consumption goods by increasing tremendously the cost of the fixed capital (machinery, etc.) employed in their production. A very large proportion of the working population is now employed in connection with the

<sup>1</sup> S. S. Metz, *New Money for New Men*, chap. 2. (Macmillan & Co., Ltd., 1938.)

<sup>2</sup> Dr. Oscar Liebeck, *Currency to Come*, p. 38. (Published at 59 Belsize Park, London, N.W.3.)

restoration and replacement of capital or investment goods. Their purchasing power is determined by the rate of flow of savings into effective demand for these investment goods. The question of saving and investment has, therefore, become the principal factor governing the level of employment and the general prosperity of the economy.

In the examples that have been taken we have been assuming, for the purpose of simplification, that the volume of money, and the velocity of its circulation, were constant. This over-simplification must now be abandoned. The rôle of the banking system, and particularly of the Central Bank, as the controllers of financial policy must now be considered.

In our quotation from Mr. Keynes a reference is made to the quantity of money as one of the factors determining the rate of interest. The question naturally arises as to how the quantity of money is determined. To state the position in general terms, the quantity of money appears to be determined by whether the Central Bank pursues an expansionist or a restrictive policy. That is to say, whether the bank engages in a course of action which will broaden the basis of credit or, alternatively, a course of action which narrows the basis of credit.

First of all, it should be remembered that under a gold standard system the quantity of money depends to a considerable extent upon the supply of gold. The expansionist policy of the Central Bank might, therefore, be

“the result of the flow of new gold from the mines. It is equally possible that the expansion may arise on the ‘goods side’ . . . some invention, some opening up of new markets, some discovery of new natural resources.

which makes borrowing more profitable . . . some change which tends to raise the 'natural rate' of interest. If in such circumstances money rates are not *raised*, then there are present the conditions for an extension of borrowing, an introduction into circulation of new money, *which brings it about that investment is in excess of saving.*"<sup>1</sup>

These are circumstances in which it might be said that the opportunities for investment had risen to a sufficiently high level of profitability to enable a profitable use to be made of money borrowed at the prevailing rates. The initial movement has arisen from a prospective increase in the profits of investment.

The other way in which the movement may take place is by a reduction in the price of borrowed money. I have in mind, not merely the rate at which the banking system is prepared to grant short-term commercial loans, which is based upon the Bank of England bank rate, but the rate at which money is obtainable for long periods. When the cost of such borrowing falls, even assuming that estimates of the profitability of enterprise in other respects have remained constant, investment can be encouraged because enterprises that would have been unprofitable at the high rate of interest may be made attractive and profitable at the lower rate to be paid on the money borrowed in order to embark upon them.

The banking system, apart from being in a position, in certain circumstances, to grant commercial credit at a lower rate, also has the power to *force* money into the hands of the public by the purchase of securities. The money thus paid to the public in the purchase of

<sup>1</sup> Prof. Lionel Robbins, *The Great Depression*, p. 42. (Macmillan & Co., 1934.) (My italics.—H. M.)

these securities would have to find another means of investment—unless, that is, it was still held idle on deposit or spent on living expenses. If such purchases of securities by the banking system produced the results expected of them, the recovery that would follow would have been directly initiated as the result of an act of monetary policy. Let us look then at the economic consequences of this action.

By the extension of a greater volume of credit to borrowers at a lower rate of interest, entrepreneurs and investors are encouraged to embark upon new schemes of capital extension that are made profitable because they have to pay less for their loans. The money, which they draw from the banks upon the basis of this credit, is spent for the purchase of capital goods, or used as working capital in the payment of wages and the purchase of raw materials, etc. It thus adds to the total volume of money in circulation. There has been an increase of money without, so far, an increase in the number of goods the money will buy. The existing stocks of goods are cleared off the market. Prices tend to rise. The volume of employment increases and a general increase in business activity takes place.

Once this upward course of business activity is started it is a cumulative movement. Confidence begets confidence. New investment encourages more new investment. People who have been allowing money to lie idle on deposit at the bank begin to use it for more profitable and productive purposes. The quantity of money in circulation increases. Goods and services are exchanged for money more rapidly. The velocity of circulation increases. More and more of the factors of production are brought into employment.

This will last until we reach the end of the upward

swing and the whole process is reversed. Confidence is shaken. New investment ceases to take place. The banks begin to call for repayment of their loans. The quantity of money is reduced. The volume of production and employment shrinks and we go down the scale more rapidly than we went up.

These results follow, if the operation initiated in this instance by the Bank of England is successful. What is it then that makes it successful? This appears to be largely a matter of psychology rather than of economic science. It depends upon the confidence of the investor. In other words, it is not a matter of what a study of investment prospects might reveal, but very often the speculations of investors regarding what other investors will *think* that a still wider range of investors will think will happen.<sup>1</sup>

“In former times, when enterprises were mainly owned by those who undertook them, or by their friends and associates, investment depended on a sufficient supply of individuals of sanguine temperament and constructive impulses who embarked on business as a way of life, not really relying on a precise calculation of prospective profit. . . . Decisions to invest in private business of the old-fashioned type were, however, decisions largely irrevocable, not only for the community as a whole but also for the individual. With the separation between ownership and management which prevails today, and with the development of organised investment markets, a new factor of great importance has entered in, which sometimes facilitates investment but sometimes adds greatly to the instability of the system. In the absence of

<sup>1</sup> “As the organisation of investment markets improves, the risks of the predominance of speculation does . . . increase” (J. M. Keynes, *General Theory*, p. 158). He describes my point as “what average opinion believes average opinion will be”.



security markets, there is no object in frequently attempting to revalue an investment to which we are committed. But the Stock Exchange revalues many investments every day and the revaluations give a frequent opportunity to the individual (*though not to the community as a whole*) to revise his commitments. It is as though a farmer, having tapped his barometer after breakfast, could decide to remove his capital from the farming business between 10 and 11 in the morning and reconsider whether he should return to it later in the week. But the daily revaluations of the Stock Exchange, though they are primarily made to facilitate transfers of old investments between one individual and another, *inevitably exert a decisive influence on the rate of current investment.*"<sup>1</sup>

I have quoted Mr. Keynes at length, because it is better that he, being an expert on the subject, should say these things in his own way. It appears from all this, and from more that is said by Mr. Keynes in the same chapter and by the other critics of the existing financial order whom I have quoted, that these vitally important decisions are governed not by "the genuine expectations of the professional entrepreneur" but by "the average expectations of those who deal on the Stock Exchange". To illustrate how ignorant and ill-advised the Stock Exchange estimates of future business prospects may be, Mr. Keynes tells us that day-to-day fluctuations of an ephemeral and non-significant character tend to have an altogether excessive, and even absurd, influence on the market. "The recurrence of a Bank holiday may raise the market valuation of the British Railway system by several million pounds."

If this is the precarious basis upon which a recovery is based, what, it may be asked, are the factors and

<sup>1</sup> J. M. Keynes, *The General Theory of Employment, etc.*, pp. 150-151.

influences which cause it to end, apparently inevitably, in a downward spiral of depression. Here again it seems to be a mixture of fact and fantasy, of objective economic factors and of subjective psychological factors. During the upward swing of the cycle, as more and more of the factors of production are brought into employment, there comes a period when the different enterprises begin to compete with one another for the available labour or the available supplies of materials. The prices of labour and materials tend to rise.

"The heavy industries will begin to make larger profits. This, in turn, will react on the market for securities. Prices will be marked up to reflect the higher expectations of profit. More money will be borrowed from the banks *to finance speculative operations*. The rapidity with which deposits are used will increase still further. The yield of gilt-edged securities will begin to rise. The opportunity for *speculative* gain will be such that short loan rates will be driven above long. By this time the banks will have become alarmed and will be making various attempts to put the brake on. For some time, however, the wave of optimism may carry the boom along.

"But it cannot go on. As it proceeds, the technical strain on the credit structure becomes greater and greater. At the same time the rise in wage rates, reinforced probably by the expenditure of speculative gains for consumptive purposes, diminishes the prospects of profitability of the industries producing capital goods, both by raising their costs and by stimulating the competition of the consumption goods industries, thus raising the rate at which they can borrow. *Usually it is some accident which is actually responsible for a reversal of the process—a conspicuous business failure, the rumour of a bad crop, or something fortuitous of that kind.*"<sup>1</sup>

<sup>1</sup> Professor Lionel Robbins, *The Great Depression*, p. 41.

I offer no apology to the reader for these long quotations which, it will be observed, are taken from two academic authorities of distinction representing somewhat divergent views. I have also relied upon Mr. S. S. Metz who has had thirty-five years of practical banking experience. These authorities agree in their description of the fantastic influences that determine the level of productivity and employment, and therefore the whole economic welfare of the people of this country.<sup>1</sup>

But having moved so rapidly from the simple expositions with which we started, into this maze of economic fact and psychological fantasy, we still have the task of making some suggestion as to the lines upon which industry might be served by a more rational financial mechanism. We might first summarise the conditions which policy should fulfil and then consider how the changes could be effected.

1. If private ownership of capital is to be reconciled with the public good, then some check must be placed upon its being held in the form of idle money deposits or in any other way that withholds it from functioning actively in the productive system. Money acting as a store of value maintains its constant claim over commodities. The commodities or services against which it acts as a claim are perishable or transitory and cannot be held in the same static form. The money claims upon *current* wealth should, therefore, be held in such a form as would enable the capital which the claims represent to participate in the *production* of current wealth.

<sup>1</sup> In fact, the process is even more ludicrous than has been revealed, for Mr. Keynes tells us that even the "booms" of prosperity should really be defined as "boomlets", for they do not even at the peak bring *all* the factors of production and *all* the available labour into employment.

2. The volume of credit and the quantity of money should be regulated in accordance with the needs of the productive system and not be dominated by irrational and anti-social speculation in the fluctuating value of securities. The proper function of the Stock Exchange is, as its name implies, to facilitate the exchange of stocks and shares for cash. A method must be found which will enable this useful function to be performed, while at the same time abolishing the frenzied speculation which has such evil disturbing consequences upon the productive system.

3. The price of goods and services should be left free to be determined by the costs of production and the relationship between supply and demand. The prices will thus reflect the improvements in the technique and organisation of production and distribution. There must be eliminated, as far as it is humanly possible, any distortion of the price levels due to arbitrary manipulations of the medium of exchange.

4. In general, money should be regarded as having the functions of acting as a measure of value and a medium of exchange. Its power to act as a store of value should be subjected to the strictest limitations to prevent it from acting as a store of *idle* value and thus representing assets withdrawn from that active participation in production which alone can justify claims upon the current goods and services produced.

At this point, I am stating only in a very simplified form what appears to be desirable without defining how it is to be made possible. Mr. Metz, who has all the advantages of a complete grasp of the technical questions involved, advocates very drastic treatment. He would make illegal many of the anti-social

practices into which we have fallen, and institute a strict public control over the direction of all new investment and all exchanges of existing securities. His proposals require much more careful study than I have yet been able to give them. At a first glance they appear to me to indicate the ultimate objective at which we must aim, but I doubt whether they will become politically possible in their entirety for some considerable time to come. As an immediate policy, I would suggest more moderate proposals as the first steps to be taken in what seems to me to be the right direction.

Obviously the time has come when the Central Bank should become, openly and in fact, the public utility institution which it has already virtually become in practice. It should cease to be directed by a Board drawn almost exclusively from banking and financial institutions. The Governor and members of the Board of the Bank of England should be appointed by the Government, and should be selected with a view to the widest possible representation of specialised economic knowledge, drawn from the fields of industry, commerce, banking, and economic science. It might be expected that, with a board of a character so widely representative of the different branches of economic activity, there would emerge a direction of financial operations which would bring the idle factors of production into fuller employment.

It has to be noted, however, that, while the Central Bank is able, within limits, to determine the volume of credit and the quantity of money, it has little or no power itself to influence the *direction* of investment. The money it makes available may be used for "the turning over of goods and services", or for "the turning

over of securities". It may, in other words, be used for the purchase of consumption goods, the creation of new capital assets, or for the speculative purchases of existing securities which represent existing capital assets. In the latter case, it is performing no useful social function.

It should be noted also that to place restraints upon this speculative "turning over of securities" would not inconvenience the ordinary investor. The overwhelming majority of people who invest savings are not speculators. Indeed, there is evidence that what they desire is reasonable safety and stability. I do not think it is an accident that in recent years, following upon the exceptional instability of security values, there has been such a rapid growth of various kinds of Investment Trusts. These institutions might be said to represent a trend towards "co-operative" investment analogous to the trend towards co-operative ownership and management in industry to which we have referred earlier. Moreover, if an examination could be made of the transactions in the total of negotiable securities that exist, it would be found, I believe, that a very large proportion of the securities are *held* by their owners as a stable investment. Some of the transactions that take place are necessitated by a real need for cash, as in cases of death or economic misfortune. Probably only a relatively small proportion of the total is involved in speculative transactions. But, in this case, it is certainly the tail that wags the dog and my point is that it is a very small tail.

If it is true that the activities of a very few people are able to set up a series of economic and psychological reactions that result in economic instability and imperil the welfare of the great majority in the

community who are engaged upon useful avocations, it would be reasonable for society to seek the means by which its welfare might be defended.

The suggestion has often been made that a National Investment Board should be set up. I believe that such a body should be a meeting-ground for those concerned with the conduct of the Central Bank, representatives of the Government through the Treasury and the National Debt Commissioners, and representatives of the Economic Council which will be defined in Chapter XIII. They are all concerned with the influence of finance and public policy upon business activity, and it is clear that this influence can be exerted for good by a wise direction of investment. A useful summary of the functions that might be exercised by such a body was contained in the book *The Next Five Years*.<sup>1</sup> They include the regulation of the capital market by estimation of the savings available, determination of the volume of foreign lending, co-ordination and supervision of the issue of loans for the Government, local authorities, and other public bodies, and discouragement of "semi-fraudulent" issues.

I suggest that, in addition to these functions, it might be possible for the Investment Board to provide facilities for the exchange of securities under its own auspices. What is required is a method by which the useful functions of the Stock Exchange could be performed under circumstances that would eliminate the speculative evils to which attention has been drawn. We need to provide a mechanism which would preserve a reasonable liquidity of investment. It should be possible to do so without allowing an important financial institution to become a casino. The National

<sup>1</sup> *The Next Five Years*, pp. 115-124. (Macmillan & Co. Ltd., 1935.)

Investment Board could facilitate the exchange of securities by undertaking itself to purchase, at a valuation to be determined in some way that is related to the ascertained earning capacity of the concern, shares in *established* enterprises from persons who desired to dispose of them. It could then sell these shares at the same price to other persons desiring to acquire them. Its expenses in rendering this service could be covered by a commission. The point is that, in this way, it would preserve the existing right of the individual owner to realise on his investments while eliminating the speculative element.

The proper field for speculation is in the initiation of new enterprises to exploit new fields of production, new discoveries and inventions. The raising of capital for such undertakings and the dealing in these shares, for a period of time to be determined, would provide a socially useful field for the speculative investor. His speculative proclivities would thus be assimilated to the needs of a particularly useful kind of entrepreneur. At a certain stage, when the new industry or process could be said to have become established, it would pass under the jurisdiction of the National Investment Board as far as the sales and purchases of its shares were concerned.

It would probably be regarded as too large and too dangerous a reform for the Investment Board to take over responsibility for dealings in the shares of *all* the established undertakings at once. I suggest, therefore, that the experiment might be made by applying it first to all the Public Utilities, Statutory Undertakings, and other enterprises with which public finance and public policy are directly concerned, and in addition, to all the privately owned concerns which *volunteered* to



come within the scheme. I am quite sure that there are very many sound business concerns that dislike the speculative fluctuations to which their shares are subjected. They might be deterred from participating in the scheme by fears that their future power to raise capital by public issue would be impaired, but it would surely be possible for a National Investment Board to reassure them on this point and to offer some inducement that would secure their co-operation.

These are merely tentative suggestions that might be a useful basis of discussion regarding a problem which must engage the attention of everyone concerned with the construction of a rational economy. I am aware that any new idea of this kind is bound to be met by alarmist prophecies of disaster. It may be wise, therefore, for me to seek what support I can get from someone who cannot be charged with an inadequate knowledge of the subject. The following quotation does not support the changes suggested, but it discusses their general intention as, at least, a tolerable reform if it could be made to work.

“The spectacle of modern investment markets has sometimes moved me towards the conclusion that to make the purchase of an investment permanent and indissoluble, like marriage, except by reason of death or other grave cause, might be a useful remedy for our contemporary evils. For this would force the investor to direct his mind to the long-term prospects and to those only. But a little consideration of this expedient brings us up against a dilemma, and shows us how the liquidity of investment markets often facilitates, though it sometimes impedes, the course of new investment. For the fact that each individual investor flatters himself that his commitment is ‘liquid’ (though this cannot be true for all investors collectively) calms his

nerves and makes him much more willing to run a risk. If individual purchases of investments were rendered illiquid, this might seriously impede new investment, so long as *alternative ways* in which to hold his savings are available to the individual. This is the dilemma. So long as it is open to the individual to employ his wealth in hoarding or lending *money*, the alternative of purchasing actual capital assets cannot be rendered sufficiently attractive (especially to the man who does not manage the capital assets and knows very little about them), except by organising markets wherein these assets can be easily realised for money.

*"The only radical cure for the crises of confidence which afflict the economic life of the modern world would be to allow the individual no choice between consuming his income and ordering the production of the specific capital asset which, even though it be on precarious evidence, impresses him as the most promising investment available to him."*<sup>1</sup> It might be that, at times when he was more than usually assailed by doubts concerning the future, he would turn in his perplexity towards more consumption and less new investment. But that would avoid the disastrous, cumulative and far-reaching repercussions of its being open to him, when thus assailed by doubts, to spend his income neither on the one nor on the other.

"Those who have emphasised the social dangers of the hoarding of money have, of course, had something similar to the above in mind. But they have overlooked the possibility that the phenomenon can occur without any change, or at least any commensurate change, in the hoarding of money."<sup>2</sup>

In the suggestion I have made to provide for the transfer of securities under the supervision of the Investment Board, and for the setting up of a social

<sup>1</sup> My italics.—H. M.

<sup>2</sup> J. M. Keynes, *The General Theory of Employment*, pp. 160-161.

organisation charged with the duty of encouraging and directing investment, Mr. Keynes's main criticism of the idea seems to have been met.

But, in looking for a way of escape from the instability generated by the uncertainties of finance, I do not think we should rely wholly upon monetary reform. The reconstruction of industry on the lines suggested in the last chapter would at least have provided a check upon over-capitalisation and the disturbances that arise from disequilibrium in production. The argument that industry must itself make some such contribution to stability is strongly reinforced by the following quotation from Mr. S. S. Metz in his book *New Money for New Men*, and by Mr. Reginald McKenna in a statement made in the *Midland Bank Review* for January-February 1937. As Mr. Metz puts it:

"We must not imagine that the reform of the financial system alone could provide the cure for the sad plight in which the human race finds itself in an economic sense. No banking system, however perfect, could avail against the evils of unbalanced production, characteristic of our society, in which economic activity is, in the main, unplanned. No control over banking policy, however comprehensive, could, alone, safeguard the community against the withering blasts of depression.

"Only a co-ordinated complex of reforms, covering not merely the money mechanism, but reaching into every phase of the social order, where it conflicts with the true interests of the community, could forge the 'missing link' and cope with those mighty and obscure forces which hitherto have frustrated every effort at bridging the chasm between productive capacity and the need of the consumer."<sup>1</sup>

<sup>1</sup> S. S. Metz, *New Money for New Men*, chap. 10.

Mr. McKenna says:

“ . . . The essence of the danger lies in over-expansion of capacity for the production of capital goods, but, as this arises from the independent action of many firms scattered over the country, the individual *entrepreneur* does not always recognise it. His action appears to himself to be no more than a capital expenditure promising an early and substantial return. Great caution is needed in introducing new capital into industry when a shortage of labour becomes widespread. Banks make only temporary advances for the purpose of capital outlay, so that restriction of banking credit would be no safeguard. A partial remedy appears to lie in the close scrutiny to which new issues have for some time been subjected, *but no external measures can be fully effective unless industrialists and traders themselves take a long and cautious view, based upon the far wider information available now than ever before.*”

The policy of industrial reconstruction outlined in the last chapter would create a structure in industry that would facilitate the direction of finance into the correct channels in the correct proportions. If a corresponding rationalisation of finance could be accomplished, then the conditions would have been created that would make possible the co-operation of finance and industry for the attainment of common ends.

## CHAPTER XII

### FOREIGN TRADE

THE methods by which the foreign trade of a country is conducted will differ according to the character of the internal economy and the objectives that are present in the mind of the political authority. The impediments to international trade which exist today are largely the by-products of political policy. They are certainly not the highest expression of economic intelligence of which men are capable. This has been made very clear in the report recently presented by M. Van Zeeland to the Governments of Britain and France. At the present time, the attention of most countries is concentrated upon preparations for war. Trading relations are distorted in the service of that end. A return to any kind of rational economic relationship between the countries of the world depends upon a settlement of political issues, an agreement to reduce armament expenditure, and a willingness to consider methods of economic collaboration. The political difficulties of today have arisen, to some extent, out of economic friction. It is therefore not unlikely that, when they have been settled, either by war or by negotiation, the economic problems will still remain, and, until the economic questions are settled also, on intelligent and mutually beneficial lines, they will continue to give rise to international rivalry and friction leading to new war dangers in the future.

The formulation of a mutually advantageous policy would not be difficult if, at any time, we could bring

about a situation in which the problem was being faced by nations really at peace with one another, and concerned only with devising methods by which the world's resources could be most fully exploited for the purpose of raising the standard of life of all the peoples of the world. The ideal international system might then come into existence, and the productive effort of each country be directed towards the creation of those goods and services which each is best fitted—by its geographical position, its natural resources and the skill and experience of its people—to produce. It is regrettable that this possibility is still so remote. But, however remote, it is important that we should not lose sight of it, and that whatever interim policy we adopt should be of a kind which will assist rather than obstruct any movement towards that ideal.

Apart from the political antagonisms that exist, the difficulty of formulating a satisfactory foreign trade policy in the circumstances of today arises very largely from the fact that the countries of the world are at unequal stages of economic and social development. The standard of life of workers in the various countries is widely different. This applies not only to wages, but to the social laws and customs regarding hours of labour, factory conditions, and other legal obligations of employers. Some countries are able to draw upon a cheap labour force in the production of goods which are to enter into competition with the products of the higher-paid labour of the more advanced countries. It is argued by advocates of free trade that the cheap labour does not necessarily have a competitive advantage and that the higher skill of the better-paid workers should enable them to produce more, or better quality, articles with less expenditure of time.

The extent to which this is true changes, however, with changing conditions. Clearly it is more true of highly skilled products than of low-skilled products, and the tendency is for the higher-paid labour in the more advanced countries to shift on to the more highly skilled jobs. The truth and force of the argument has, moreover, been modified by scientific and technical advance. Machine production tends to eliminate the need for skill. The machine itself is skilful. The machine hands often require to master only a very simple operation, and the low-skilled labour is thus put upon an equality with higher skilled labour; or it may be at an advantage, because its lower intellectual development may enable it to stand the monotony more easily. The more advanced countries still retain the advantage in the *production* of the *machines* but no advantage in the *operating* of the machines. While industrialism was spreading into new areas and the demand for machinery and equipment was increasing rapidly, this offered adequate compensation. In the nature of things, however, the area of production in which the skilled worker keeps the lead, and is able to earn his higher income, is decreasing. The area in which the need for skill is being reduced or eliminated is, on the other hand, growing.

In a similar way, scientific and technical advance has been upsetting the balance of relationships in regard to natural resources. The use of oil fuel instead of coal enables countries that have plentiful supplies of oil and little or no coal to free themselves from dependence upon the coal-producing areas. The mastery of electricity, its generation from water resources, and its use for industrial power, liberates industry from its need for proximity to other sources of power and enables

it to establish itself in new locations. The development of transport facilities has annihilated distance and reduced transport costs. Every market of the world has been brought nearer—in terms of time and costs—to every producing country. In a thousand ways science has been changing the face of the earth and upsetting the calculations upon which competitive costs were formerly based.

It may be that, if scientific progress had been slower and social progress faster, we should have been able satisfactorily to adjust the world's economic arrangements to the new conditions, but the fact is that science places these great powers in the hands of people, without regard either to their fitness to be entrusted with them or to the economic and social problems that arise. When the speed of the developments is taken into account, it is not surprising that there should have grown up a network of crude devices by which countries on the higher standard of life sought to defend themselves from the disturbance and dislocation with which their internal economic arrangements were threatened.

It is very easy to dispose of the whole problem by enunciating the theory that "Free Trade causes the various factors of production of each country—natural resources, capital, and labour—to be put to those uses for which experience shows that they are best suited". The logic of this theory is that, as and when other countries—using, it may be, cheap low-skilled labour and expensive, highly skilled machinery—are able to produce and sell any commodity to us at a lower price than we can produce it ourselves, we should abandon that form of production and transfer our labour and capital resources to the production of something else.



Thus, with a stroke of the pen, the free-trade economist will dismiss the whole human tragedy that lies between.

The industry will not, and indeed cannot, close down without a struggle to retrieve its capital. To struggle means that it will cut its costs. And, in the last analysis, this involves the cutting of wages as near as possible to the level of the competitors. But, we are told, the cost of living will be falling because of the cheaper-priced imports. It is true that the cost of the imported commodities will fall for the community generally. These benefits will be spread far and wide, but the losses will be *concentrated* upon the workers still engaged in the doomed industry. We shall all profit at their expense. The cost of living will not fall for them as rapidly as their incomes are reduced; for the prices of other goods and services, enjoying some natural protection, will not fall, or, if they do, they will fall much more slowly, and probably never to the same extent.

Ultimately the workers and the capital resources (which by this time may be scrap metal) are to be transferred to something which we are more fitted to produce. What those things are will be determined by competitive costs of production. The range of industries that would remain open to us to choose from would therefore be determined—assuming an equal degree of mechanisation in the different countries—by the difference between the standard of life of the workers in this country and workers in the other countries concerned. Even after assuming an equal degree of mechanisation, we might, of course, still enjoy a margin of greater efficiency and skill, and that margin would measure the extent to which we could afford a higher standard of life for the workers in any particular industry. It follows, therefore, that the

tendency would be for wages to fall towards the level of the lower-paid countries.

We are told also that an advantage would accrue to the exporting industries. The cost of living and of materials would fall and they would be able to sell a greater quantity of exports in the markets of the world. But is there really any safety for our export industries as a result? They would gain no advantages which were not gained equally by their competitors. The price at which their goods would sell in the open free markets of the world would still be determined by open competition, which tends, in the last analysis, to become competition in wage levels. Their incomes would fall as rapidly as the cost of living, and their standard of life would also tend to be dragged down to a level competitive with the most socially backward industrial areas. There was a stage in the history of the world when this was not true. In the industrialised world of today I submit that it *is* true.

I am ready to agree, for my conscience is clear on the subject, that this intricate problem cannot be solved by the simple device of clapping on a tariff. I also believe that it is economic lunacy to go on producing particular goods at high production costs at home when the balance of advantage has clearly shifted to another country which is anxious to sell them to us at the cheaper price and is willing and able to take our more highly skilled products in payment. Moreover, any interference with the flow of cheap imports will add to the difficulties of our export industries—although I am not prepared to agree that, in the absence of those interferences, their problem would be solved. But, having made all these obvious and elementary admissions, I am by no means ready to accept the pure doctrine of

free trade. The simple reason for this is that I am not prepared to wait until the standard of life of the most slave-driven industrial country has been raised, before attempting to raise it in this country as a result of more intelligent methods of control. By following the cult of cheapness we should be conniving at a process which undermines the standards of the most advanced countries, and rewarding, with a premium, the most ruthless exploitation of labour. That is what free competition meant within our own frontiers, until we were moved to restrain it by measures of legal control. The doctrine of free competition was preached with the same eloquent persuasiveness, obscuring the human aspect with an economic formula, as is now used against any effort to plan our foreign trade.

In Part III of this book suggestions are to be made regarding the benefits which a planned economy should be able to give to its workers. Among these benefits will be a minimum wage, fixed in terms of the cost of living, and a similar minimum standard for the unemployed. We should, therefore, be creating deliberately, and as a matter of policy, a situation in which it would be impossible to adjust downwards the standard of life of workers in industries exposed to foreign competition.

Attention has already been drawn to the changes which have come about in the competitive struggle for trade, as a result of scientific advance and the spread of industrialism. As time goes on and the more backward countries increase their industrial production, the price competition is likely to be intensified and the area of production affected will be increased. If the incomes of workers engaged in the industries exposed to this competition are to be determined by the competitive

strength of the industries themselves, then we shall have a situation in which the rest of the community will be enjoying low prices at the expense of the workers in the exposed trades. This applies both to industries encountering the foreign competition in the home market and to export industries which encounter it abroad. Their purchasing power over the products of other industries will decline. The price of those products will fall. The wages of the workers in the sheltered industries will also fall and, despite the cheap goods that will be available, the whole standard of life will tend to adjust itself to the level of our competitors. That is what is euphemistically called the adjustment of costs. Either the standard of life must fall to a competitive level or there will be unemployment. If the standard of life falls rapidly enough and low enough, we shall regain our markets and the unemployed will be reabsorbed into employment. In fact, the nearer we get to a starvation level the more prosperous we shall be. Whatever errors we make in our attempt at planning, the consequences can hardly be worse than what we have already experienced, and are likely to experience in the future, if we pursue that course of masterly inactivity which is recommended by critics in the name of a theory of world perfection.

I started this chapter by saying that the methods by which the foreign trade of a country is conducted will differ according to the character of the internal economy and the objectives at which it aims. The whole of our discussion in the preceding chapters has been conducted with a view to the creation of a mechanism through which it would be possible to bring the economic system as a whole under conscious direction, or at least make it *responsive* to conscious direction, for

the achievement of desired ends. The object of our planning would be to raise the standard of life. The organisation of industry and finance that has been suggested would be for the purpose of allocating capital and labour to productive tasks in such proportions as would maintain equilibrium at a high standard of output, and rescue the system from the major fluctuations that now occur, and that result in the periodic immobilisation of productive resources. It is clearly necessary, if this equilibrium is to be preserved, that account should be taken of the intrusion of disturbing factors through the channel of foreign trade and that measures should be devised to prevent such disturbances from occurring. This means that we must look upon the problem in quite a new way. From the point of view of a planned economy, neither free trade nor the usual devices of protection are enough.

There are three main channels through which the disturbance of internal equilibrium may occur. They are:

1. By disequilibrium in the balance of payments.
2. By allowing imported goods to be sold on the home market at prices that would cause incomes in essential and competitive home industries to fall and thus impoverish some workers as compared with others.
3. By allowing the export industries to bear the full burden of maintaining essential exports at prices which would necessitate a fall in the incomes of their workers as compared with others.

Regarding the first point, it is usually assumed that international equilibrium is automatically maintained. In the long run it is, but let us look at the method.

“In the days of the gold standard before the War,

the international equilibrium of imports, exports, prices and exchanges was secured, it now seems to us, almost automatically. If, in any country, those who were importing goods tried to bring in more than the country's balance of outward trade, after taking account of services, interest payments and changes of foreign investment, would pay for, the foreign exchanges would move against that country; that is to say, its currency would become depreciated in terms of other currencies. At a certain point of depreciation, this would cause gold to flow out from that country. The flow of gold would cause the central bank to raise the rate of interest, contract credit, and so bring about a lowering of prices and later of wages. The country, compared with its former state, would, through its lowered price-level, become a worse country to sell in and, through its lowered costs of production, a better country to sell from; that is to say exports would tend to rise and imports to fall. The original disequilibrium of excess of imports over exports would be corrected.

This is the classical theory of international equilibrium in its simplest form."<sup>1</sup>

. . . . .

"The post-War position appears radically different. Whatever the causes, on various occasions since the War, the operations of the Bank of England, in defence of its gold reserves, have not met with so ready a response or led smoothly to equilibrium. Depressions do not work themselves out; unemployment and disequilibrium have become chronic."

"The former weapon of the Bank of England for securing equilibrium, that is, the raising and lowering of the rate of interest, seems insufficient for its purpose."<sup>2</sup>

While the book in which this passage appears was going

<sup>1</sup> *Tariffs*, by A Committee of Economists under the Chairmanship of Sir William Beveridge, p. 75. (Longmans, Green & Co. Ltd., 1931.)

<sup>2</sup> *Ibid.* p. 76.

through the press, "a financial storm of unparalleled violence struck Britain, and in four weeks drove sterling off the gold standard". In an Epilogue written after that event it was stated in the same book that

"As soon as a country is off the gold standard, the balance of exports and imports gets adjusted rapidly and automatically by the exchanges. If more sterling is offered on the exchange market than is asked for, as will happen if imports are too high for exports, the value of sterling in other currencies, no longer sustained by gold, must sink; imports are rapidly made dearer and exports cheaper, and equilibrium of the trade balance comes automatically."<sup>1</sup>

It would appear, however, that whether we are under a gold standard or a managed currency, what happens is that we first allow the disequilibrium to occur and then, either by bank policy or by automatic adjustment of exchange rates, set in motion forces that will restore equilibrium.

"While a currency is depreciating, various complex reactions are set up which stop when the process of depreciation stops. But, unless and until prices and wages rise in proportion, the effect of encouraging exports and discouraging imports remains so long as the currency remains, however fixedly, below its former value in terms of other currencies. Leaving the exchange free to fluctuate itself brings about, through the exchange market, the relation of internal and world prices necessary to adjust the balance of trade. It acts just as contracting credit and lowering prices by a rise of bank rate acts under the gold standard. It has all the effects of a tariff in making imports dearer and the additional effect of making exports cheaper."<sup>2</sup>

<sup>1</sup> *Tariffs*, by A Committee of Economists under the Chairmanship of Sir William Beveridge, p. 245. (Longmans, Green & Co. Ltd., 1931.)

<sup>2</sup> *Ibid.* p. 246.

There is an advantage in the method of exchange adjustment under a managed currency in so far as the burdens of the adjustment are more widely spread. Nevertheless, whatever the method, serious repercussions upon the internal economy are likely to occur unless some means can be devised to protect it.

The difficulty of maintaining equilibrium in our balance of payments does not arise solely from an inability to sell sufficient goods and services abroad to pay for *essential* imports like foodstuffs and raw materials. Some of the imports may not be essentials. They may be luxury goods or services. The greater their volume, the greater will be the strain upon the internal economy to increase exports to pay for them, and the larger the volume of what might be called forced exports, the more deeply are we drawn into competition with the lower skilled cheap products. That is to say, we can count upon our ability to pay with ease for a certain volume of imports out of income due to this country as interest upon foreign loans, and by the export of highly skilled products in which we still have a sufficient balance of advantage to support a higher standard of life. But, if we have to increase our exports beyond that level to pay for any unnecessary imports by additional exports of other lines of goods, then we are brought into more severe competition with other countries on a lower standard. In this connection it would appear that the position is also affected by the volume of our foreign lending.

“For the amount of international surplus which we currently need for *net* foreign lending depends upon how much of our saving is trying to find an outlet abroad. The greater the amount which finds an outlet at home, the smaller the international surplus which



we require in order to be in equilibrium. . . . When the excess of our total savings over that part of them which we can employ at home is equal to our surplus on the balance of trade, there need be no monetary obstacle to the full and profitable employment of all our resources of men and plant.”<sup>1</sup>

This is not an argument against foreign lending or against the fullest importation of luxuries. I am using it merely to show that

“if the amount of the new lending overseas exceeds the amount of the foreign balance there will be forces set in motion tending to move the exchanges against this country; while if the amount of new lending overseas is less than the amount of the foreign balance, the exchanges will tend to move in favour of this country. In both these cases, the exchange movements will have some influence on the commodity balance of trade, and that will be reinforced if gold movements, either from or to the country, are the sequel of the exchange movements.”<sup>2</sup>

There is, therefore, a very definite relationship between the investment policy pursued internally and the difficulties which arise externally, and between foreign lending and foreign trade.

The other sources of disturbance already mentioned—*i.e.* through the competition of cheap imports in the home market and the competition which our exports encounter abroad—are more obvious. If the goods we are importing from abroad are such as will enter into

<sup>1</sup> Addendum to Report of the Committee on Finance and Industry, p. 192. Signed by Messrs. Thos. Allen, Ernest Bevin, J. M. Keynes, R. McKenna, J. Frater Taylor, and A. A. G. Tulloch.

<sup>2</sup> D. T. Jack, M.A., *International Trade*, pp. 34-35. (Pitman & Sons, Ltd., 1931.)

competition with the same class of goods produced at home, and if they are being sold at less than the costs of production in Britain, then prices fall, home production is discouraged, unemployment is created, wages are reduced, and, until the transference to other employments can be made, there is a partial dislocation of the home market for other goods. If the goods we have to send abroad are such that the margin of our greater skill and efficiency is not great enough to support our higher wage level, a similar set of reactions occurs.

These arguments are not directed towards a conclusion that we should stubbornly refuse to adapt our production in accordance with changes in the balance of competitive advantage in the world, or that we should reject free trade merely to rush to the other, and much more stupid, extreme of attempted self-sufficiency. They are advanced to support a case for rational central supervision and control. A planned economy would require to create an authority able to take decisions in the common national interest regarding the total volume of imports which would be required, and to devise methods (*a*) by which they could be received without disturbing internal prices and (*b*) by which they could be paid for by exports without throwing the whole burden upon the unfortunate export trades. The method by which this might be achieved is dealt with below.

The general aim of the foreign trade authority would be not only to keep our balance of payments in equilibrium, but to do so at the highest level at which this country could reap the advantages of the international division of labour. It would assist our export trades to exploit to the full the world market for those products in which we continued to enjoy a

competitive advantage, despite the higher standards of our workers. In so far as our imports could be paid for out of the proceeds of trade upon that basis, plus, of course, our income from existing overseas investments, no question would arise. But imports of a value exceeding the amount that could be met by our income from the higher-priced exports, would have to be paid for by exports in the lower-priced grades. Here a question would arise for the foreign trade authority as to how far it was in the national interest to maintain foreign trade at this level and whether a curtailment of luxury or unnecessary imports would not be the better course. And it would be in the light of these considerations that the authority would, in consultation with the National Investment Board, decide upon the volume and the direction of foreign lending.

All this does not mean that we would be seeking to set limits to our foreign trade. On the contrary, we would be seeking to expand it to the maximum in our profitable lines of trade and in those markets where, as a result perhaps of agreements with countries on a comparable standard of life, we might enjoy a measure of preference against the cheaper products of the less advanced competitors.

To perform these functions I suggest that the powers and duties of the Imports Duties Advisory Committee might be enlarged. In conjunction with the Department of Overseas Trade it might undertake responsibilities similar to those which I outlined in 1933 for an Import and Export Clearing House. I suggested then that through such an organisation, which would take account of the export problem as well as that of imports, we might evolve a more scientific method of dealing

with our foreign trade. With regard to exports its function would be mainly to register business transactions, except in those instances where the exporting industry required financial assistance to enable it to compete in the world markets, while still maintaining wages and conditions of labour at the higher standards that would be compulsory in a planned economy. With regard to imports, it might be possible, through such an organisation, to arrange for the bulk purchase of a considerable proportion.

The foreign trade organisation would not necessarily be making these purchases on its own account. With industries integrated on the lines that have been proposed, there is every probability that they would be anxious to secure the economies of bulk purchase of their raw materials and other supplies. Such transactions could be arranged through the foreign trade authority. Some of our imports of basic foodstuffs might be purchased in bulk, by arrangement with the wholesalers and merchants who normally market them in this country. Foodstuffs, raw materials, and other supplies that are not produced in this country would not involve any question of internal price control. The full advantages would be passed on to the general and industrial consumers, and might constitute a substantial aid to the expansion of our exports. For all goods that do come into a competitive relationship with goods produced by home industries, there would be price control in order that the incomes of home producers might be equal to the amount necessary to pay the higher wages. In passing on supplies of this kind to the wholesalers or merchants, an addition would be made to the price similar to an import tax. Other goods which do not lend themselves to bulk purchase and which come

into competition with home-produced goods would be taxed as at present under the existing powers of the Import Duties Advisory Committee.

The profits made on these import transactions might then be spent, it was suggested, in the payment of a subsidy to that proportion of our exports where it could be shown that the prevailing world prices would not bring in sufficient to maintain the existing wage level of the workers employed.

The organisation would, therefore, employ a variety of methods. It would require all export or import transactions to be registered at the Foreign Trade Clearing House. The ordinary exporter would have nothing more to do than notify the Clearing House of his export of goods and the payment due. Exporting industries that required financial assistance would enter into the necessary arrangement with the Clearing House. In the case of imports, some goods would be purchased in bulk through the Clearing House on behalf of the integrated industries; other bulk purchases might be made by the Clearing House by arrangement with wholesalers or merchants; the wide range of miscellaneous imports would be subject to a levy imposed in accordance with the principles that now govern the recommendations of the Import Duties Advisory Committee.

The income from these duties or additions to import prices, as the case may be, would be spent upon assistance to the Export Trades. This assistance might take the form of expenditure upon the improvement of marketing arrangements, the better representation of British goods in foreign markets, or direct financial subsidies to maintain internal wage standards. In so far as the income from duties and differential prices was

insufficient for these purposes, additional money would be provided by Parliament.

The reasoning behind this proposal was that, as foreign trade is essential to national welfare and the whole community shares in its benefits, so should the whole community contribute towards bearing the burden which these advantages entail. If the export of coal and cotton textiles, for example, is held to be necessary to pay for our imports, we have no right to demand that coal miners and cotton textile workers should endure poverty, so that the rest of us may enjoy a higher standard of life.

This proposal was put forward in a very tentative way at the time, because, although it seemed reasonable, I felt it was too unconventional to earn widespread support. I have since found, however, that the idea was not altogether original. It is advanced in a different form as an addendum<sup>1</sup> to the Report of the Committee on Finance and Industry. It will be remembered that this report was presented in June 1931, before the financial crisis of that year. The idea was mooted as a method of dealing with the situation out of which that crisis arose, and it is very possible that not all the signatories would support it in the changed circumstances of today. Indeed it is probable that some of them would argue that we have already achieved as much of the policy as is needed by the abandonment of the gold standard, and that all the advantages they had in mind can be secured, under a managed currency, by an adjustment of exchange rates. However, I see in it a method

<sup>1</sup> This addendum was signed by Messrs. Thos. Allen, Ernest Bevin, J. M. Keynes, R. McKenna, J. Frater Taylor, and A. A. G. Tulloch.

which would be of permanent value, and perhaps essential, to the regulation of the external trade of a planned economy which was striving to maintain stability, a high standard of life, and the fullest utilisation of its internal resources. The passage runs as follows:

“It is said that the restriction of certain kinds of imports would curtail foreign buying power and so diminish the market for our exports. This would be true if we were to use our improved balance of trade to import gold and the consequent loss of gold by the rest of the world had the effect of causing a contraction of total credit. But if we make use of our improved balance of trade to expand investment at home with the result of increasing our imports of food and raw materials (an expansion which would have led to a *loss* of gold by us if we had attempted it without a contemporaneous restriction of imports) or to increase our foreign lending, then it need have no adverse effect on the market for our exports.

“It is said that a restriction of imports would tend to increase the cost of production of our exports. This is a question of degree depending on the kind of restriction imposed. Clearly a substantial tax on imported raw materials without a rebate for exports would have a seriously adverse effect on exports. At the other extreme, it is not evident that a tax on the importation of luxury motor cars or an Import Board for pig products would have any appreciable consequences of this kind. It is easy to conceive both of a tariff, accompanied by appropriate rebates, and of Import Boards the effect of which on the cost of exports would be small compared with that of other factors. Nor is there any reason to suppose that the effect on exports need be commensurate with the effect on imports.

“Nevertheless, even if these measures were so devised as to impose only a small handicap on our exports, this would be *pro tanto* an objection. The

logical course, in our opinion, would be to find ways of giving equivalent advantages to the export industries. For much of the argument in favour of a restriction of imports applies equally to a subsidy to exports. A direct subsidy would be open to various practical objections. But it would not be difficult to find other ways of giving back to the export industries advantages at least equal in amount to the comparatively small disadvantages which would be imposed on them by those effects of restricting imports by a tariff or otherwise which would be individually too small and incalculable to be dealt with by means of a rebate.

"The third objection, which is most commonly heard, relates to the effect on the cost of living of the working classes. The force of this objection depends partly on the character of the tariff or other measures in view, and partly on a comparison with the effect on the cost of living of those measures to which the tariff is offered as an alternative.

"For example, a given amount of revenue raised by taxing manufactured imports would probably increase the cost of living less than if it were raised by taxes on tea, sugar, beer and tobacco. Or again, if it were to diminish the necessity to reduce wages or had the effect of increasing employment at the existing wage, its effect on working-class standards would probably be favourable. We think that a scheme could be devised which would have no adverse effects on working-class standards.

"Since many of the arguments in favour of a restriction of imports apply equally in favour of schemes of assistance to exports, some system of restricting imports, accompanied by a policy of giving advantages to the export industries, would seem to be the most practical plan of action.

"Finally, the immediate effect of such measures in reviving business confidence and a spirit of enterprise scarcely needs to be emphasised.



“For these reasons and also because relief would be given both to the Budget and to the balance of trade, it would seem that restrictions on imports and aids to exports would run well in double harness with the other class of remedy which we next discuss, namely, schemes of capital development. For it is obvious that the whole of the resources required for capital development at home are necessarily found within the country and as a result of our own efforts and sacrifices, except in so far as their effect is to diminish our net foreign surplus, whether by decreasing our exports or increasing our imports. Thus the “burden” of such schemes, for which we need to make special provision, is exactly measured by the burden on the balance of trade. If, therefore, we were to expand investment at home *and* control imports, we should get the favourable effects of both schemes on domestic employment and avoid the disturbing effects of both on our international balance.”<sup>1</sup>

I have included in this quotation some paragraphs that deal with wider issues. This has been done in order to show the close connection between foreign trade policy and domestic economic policy. My contention is that, if we plan the one, we must plan the other.

It should not be forgotten, of course, that the extent to which it would be necessary for a planned economy to use such a device would be reduced, as a result of the increased co-operative methods which would result from industrial reconstruction. The integrated national industries would be conducting their operations on more economical and efficient lines. Their competitive efficiency (that is, in technical organisation and equipment) would be increased. The competition between different British producers in the same foreign

<sup>1</sup> Pages 201 to 203.

markets would tend to be eliminated, and centralised and expert selling organisations would probably be set up, which would provide more adequate representation of British goods in foreign markets. Our bargaining power, as large consumers of imported foodstuffs and raw materials, could be used by the Foreign Trade organisation to negotiate reasonable preference for our exports. Trade agreements on the lines that have been successfully pursued by the National Government in recent years would be maintained, and extended where possible. Our trade relations with Empire countries, from which a large proportion of our essential imports come, could be maintained on a firm and mutually advantageous basis.

This organised trade relationship with the Empire and with foreign countries would not reduce either our power or our willingness to expand our foreign trade and to gain the consequent advantages, not only of the international division of labour, but in benefits to the shipping, shipbuilding, and other maritime industries and services for which we are so well equipped. Nor do I think that it need be feared that we should be so irrational as to fail to carry through the necessary adjustments of our internal production. The direction of capital investment by a National Economic Council would not be less intelligent than the haphazard allocations that occur today. Clearly it would be to our advantage to develop new industries making the more highly skilled products and, in so far as it was consistent with national safety and economic wisdom, to abandon or reduce our production of the lower-skilled products which we could advantageously buy from abroad. But we should do so in an orderly and deliberate way, as part of a national economic policy, and not

leave the industries to engage in a long-drawn-out and hopeless struggle against adversity.

It is quite true that a form of organisation such as I have suggested might be utilised by an unenlightened political authority for less intelligent ends, but we cannot refuse to create social machinery suitable to a solution of our problems because we fear that it may not be intelligently used. We must assume that those who come after us will be at least as intelligent and as morally trustworthy as we are ourselves.

## CHAPTER XIII

### CO-ORDINATION

THE scheme of economic reconstruction has been outlined in the last three chapters. It remains for us now to discuss how the activities of the authorities, which we have proposed to entrust with the direction of policy in industry, finance, and foreign trade, are to be co-ordinated. In each of these chapters we have seen how one function is related to another. Industrial organisation, financial direction, and foreign trade are not three separate subjects. They are three aspects of a single subject—the economic policy of the nation, which must be harmonious in all its parts.

Reference has already been made to the contradictions which have occurred in the past between the methods and the aims of different sections of the economy. They have been found on occasions to have been pursuing aims which were mutually exclusive. The direction and guidance of a single national policy, through the channels that our organisational structure would provide, would bring each branch of activity into a harmonious relationship with the others in the pursuit of a common aim. From the industries or enterprises concerned in each of the three spheres of activity there would flow, under proper encouragement, a great deal of information regarding the facts of their situation, the difficulties that were being experienced, and suggestions as to how they might be helped. This information would be studied by the responsible authorities

in each sphere and, together with their own suggestions, would form the basis of reports to the co-ordinating authority which we shall call the National Economic Council. The National Economic Council, with all the facts before it, would survey the whole field of economic activity, and, in consultation with the responsible representatives of the Government, formulate a comprehensive plan for general guidance. The Central Bank, the National Investment Board, the Foreign Trade organisation, and the Industrial Advisory Council would conduct their operations in accordance with this policy and seek to enlist the co-operation of industries or enterprises to assist in carrying it into effect.

What I want to convey is that we should not be creating an authoritarian bureaucracy which imposed its will upon the economic system. The Economic Council would be broadly based upon the subsidiary authorities. The personnel of these authorities would be appointed by the Government after consultation with the interests affected. Part of their function would be the constant maintenance of contact, for purposes of discussion, with those engaged in the enterprises coming within their sphere. They would be expected to convey to the Economic Council information regarding the needs and wishes of those enterprises. When the economic policy was determined, responsibility for it would be accepted by the Government.

In carrying it out through these authorities, the Government would not be usurping any functions which it does not now perform. Banking and general financial policy is now determined in close consultation with the Government. Foreign trade policy is now determined by the Government on the advice of the

Import Duties Advisory Committee. Through the new organs of authority, and under the advice of the Economic Council, the Government would still determine policy in these spheres, and the purpose of that policy would be, and could only be, to serve the needs of industry and foster its prosperity. All that would have happened would be that a more comprehensive organisation would have been brought into existence, capable of advisory assistance in the formulation of policy, and more adequate to the task of carrying it through. It would, in fact, be a much more democratic method than is now adopted, for it would be enlisting in consultation the best intelligence of the nation, drawn from a wide field of industrial, financial, and general economic experience.

The success of such an attempt at national co-ordination and unity of purpose would depend upon the influence and authority of the Economic Council. It would require to include in its membership representatives of every department of Government concerned with economic policy; representatives of the Central Bank, the Investment Board, the Foreign Trade organisation, and the Industrial Advisory Council; representatives of the appropriate National Organisation of Employers; representatives of the Trades Union Congress General Council; and selected individuals of eminence in the fields of Economic Science and any other branches of learning from which expert assistance could usefully be recruited.

It has sometimes been suggested that the work of the Economic Council would be so important that it should meet under the chairmanship of the Prime Minister. I do not believe that would be advisable. As the problems of the Government become more and

more intricate it becomes more than ever necessary that the Prime Minister should be free from any detailed work. He is likely to come to rely increasingly on a few lieutenants working in close association with him and exercising his delegated authority. Powerful and responsible Ministers should be in charge of (1) Foreign Affairs, (2) Defence—embracing all the defence services, (3) Economics—including all the departments to be represented on the Economic Council, and (4) Social Services—bringing each of the Social Service Departments into a co-ordinated relationship. The four Ministers charged with the responsibilities of co-ordination, and of the initiation of policy in these groups, together with the Chancellor of the Exchequer, should be working in the closest relationship with the Prime Minister, and should be regarded as his inner Cabinet of advisors. This raises a wide question of Governmental organisation with which we are not immediately concerned. It has been raised only in order to indicate why I am in favour of appointing a special Minister of Economics, who would rank with the most important Ministers in close touch with the Prime Minister.

Our Economic Council would meet, then, under the Chairmanship of the Minister of Economics. It would include also all the Ministers responsible for departments concerned with economic questions—*i.e.* a representative from the Treasury, the President of the Board of Trade, the Minister of Agriculture, and the Minister of Labour. These Ministers might meet separately, as required, for the discussion of important issues of policy upon which political action was to be recommended by the Minister of Economics. The discussions of the Economic Council would, of course, be

private, but it should be charged with the duty of publishing a summary of its proceedings, together with all the relevant facts upon which the discussions were based. The reason for this provision is in order that the fullest possible information should be available to Members of Parliament and others when the policy pursued by the Government was brought under discussion. In so far as we are bound, in the interests of efficiency, to entrust small groups of men with the taking of vital decisions, it is the very essence of democracy that these decisions, and the results which flow from them, should be kept open to discussion by the democratic and final authority of Parliament, and that Parliament should be served with the fullest information of the facts upon which the decisions rest.

The Economic Council is the keystone of the structure of a planned economy. It must not be imagined, however, that, in the policy that has here been proposed, it is to take upon itself responsibility for the guidance of the economic system in all its detailed operations. The whole case I have been attempting to argue is precisely that it is neither necessary nor advisable that it should do so. To put it briefly, it would be concerned about the relation of one aspect of policy to another. It would be a co-ordinating authority. It would co-ordinate the recommendations and decisions regarding industrial policy, financial policy, foreign trade policy, and political social policy.

Let me repeat again that all these aspects of policy are *now* the concern of Parliament and the Government; but Members of Parliament and of the Government are not elected as experts in these subjects. Some of them have expert knowledge, but it is not their function to serve upon expert bodies concerned with



detailed administration. They are elected as representatives of the people on broad principles of policy. As elected representatives of the people they will approve or disapprove the recommendation brought forward by the Government as a result of its consultation with the Economic Council. The reports and detailed information provided by the constituent bodies of the Economic Council, and upon which policy decisions are to be based, will be available to Members of Parliament, and their criticisms and suggestions will be strengthened in this way.

The whole of the planning proposals that have been advanced in the last three chapters are designed for the purpose of achieving a wise distribution of our capital and labour resources and general economic stability at the high level of output which would result. This economic stability would express itself in a stable general price level. It may be suggested, however, that, in our effort to achieve stability, we should be in danger of producing a rigid and inflexible structure, incapable of adjustment to the changes that would continue to take place in the methods of production, and in the character of consumers' demand. Yet it should be remembered that the kind of flexibility that is necessary for these purposes is quite different from the needs of an unplanned economy, in which the price level is subject to rapid fluctuations from a number of different causes.

A passing reference was made to this in Chapter X (pages 223-4) in our discussion of the dangers to the economic system of uncontrolled monopolies. It was there pointed out how important it is, when a trade recession occurs, that prices, particularly of constructional materials, should be adjusted to a lower level, in

order that the consumer industries may be induced to engage in new production and enable the recession to be checked. It is because of this necessity that proposals for the integration of industry are often looked upon with suspicion. It is feared that they would be enabled to resist the tendency for prices to fall and, by their resistance, delay the process of adjustment and cause the depression in trade to reach lower depths.

To argue in this way, however, is to leave out of account the fact that, in a planned economy, the whole effort of the planning authorities would be devoted to preventing such a situation from arising. Normally, a planned economy would be able by the methods that have been described to eliminate any serious intrusion of instability from the outside world through the channel of foreign trade. The fluctuations arising from monetary causes would be held in check by the Central Bank and the Investment Board. Through the better organisation of industry the volume of production of particular goods and services would be kept in harmony with market demand, and fluctuations arising from overproduction in particular branches of industry would, as far as possible, be avoided. By all these methods we should have achieved a sufficient control over the various sources of instability to enable stability to be defended.

There is only one gap in the armour. If the rest of the world was involved in a production crisis; if world prices had fallen to ruinous levels, as they did during the 1931 crisis, then the market for our exports would have declined and our ability to pay for our imports would be impaired. To some extent we would be defended, even from these extreme difficulties, by our Foreign Trade organisation. The Free Trade argu-

ment that cheap exports are compensated for by cheap imports is of course true, if nations are regarded as individual entities. We have rejected this Free Trade argument precisely because a nation with an unplanned economy is not like an individual. The full benefits of the cheap imports do not accrue to the same individuals who bear the full burden of the cheap exports. But by creating our Foreign Trade organisations the external transactions of the nation could be conducted in a way that would make the nation resemble an individual. That is to say, the benefits of the cheap imports would be spread over the whole nation, and the burden of the cheap exports would be similarly spread. We could thus maintain our volume of exports at the lower world price-level in so far as markets were available at all, and, by maintaining our demand for imports—up to as high a level as was made possible by the world's ability to absorb our exports—we should be in a position to make a substantial contribution to the restoration of world markets and a revival of activity.

The gap in our armour is not therefore so serious as it might appear. It is merely that, assuming there was a collapse of world prices, we should be confronted with the problem of either carrying through an adjustment of our internal prices, wages, and other costs, or throwing upon the Foreign Trade organisation the continuous strain of recalculating the prices of imports and exports to provide for the maintenance of an internal price-level probably much higher than that prevailing in the rest of the world.<sup>1</sup> What would in fact happen is, no doubt, that the Foreign Trade organisation would

<sup>1</sup> It may be argued that similar results could be achieved by allowing the exchange value of sterling to fall. But the weakness of this method is that it does not permit of *discrimination* as between essential and non-essential imports.

bear the strain of the first shock of world collapse and that we should then proceed by deliberate means to adjust the internal price-level, in so far as that was considered necessary and advisable. If it did become necessary to do this—and, remember, we are here imagining the most extreme case of world economic collapse—then the right way to do it is not merely to reduce wages and wait upon other costs declining, but to bring about an equal scaling down of all costs, wages, salaries, interest rates, and other fixed charges, and a corresponding reduction in prices, so that the standard of life would not be seriously affected.

I have presented this argument, taking the most extreme example of world dislocation, because it is upon exceptional theoretical examples of this kind that criticism is likely to be based. In fact, however, these sudden extreme movements are quite abnormal. The changes are likely to take place, assuming that the world is not involved in some catastrophe, much more gradually, leaving more time for corresponding adjustment. At any rate, it can be claimed that the planned economy I have described would be in a better position to defend its internal stability than we are now, for while we are hovering half-way between *laissez-faire* and planning we are in the position of getting the worst of both worlds.

There are other and less extreme possibilities of disturbance of equilibrium even in a planned economy. It will not be easy to maintain such a regular, steady flow of demand for changing types of consumption goods and of savings into new productive investments. There will be lags and interruptions, however we may plan to avoid them, and it is in this connection that I want to refer to another safeguard which

has not yet been mentioned. It is that in such a planned economy the spending of the Government, on capital account, for stores, renewals of the equipment of the services, or upon public works would also be planned. This would be a reserve weapon that could be used to correct the maladjustments that might still occur. Government spending would be reduced to a minimum when everybody else was spending freely—whether upon consumption or investment—and it would be expanded to the maximum when any interruptions occurred in the flow of savings into effective demand for capital construction, or for use as working capital. With this reserve power to correct any tendencies towards dis-equilibrium, the conditions of full employment could be even more securely guarded.

There is one other point. Proposals of this kind often elicit the reply that it would require committees of supermen to work the economic system in this way. All the arguments for reconstruction may be accepted as sound, but the contention is that it would be impossible to work it. Well, I have never suggested that the gains of economic prosperity on the scale that I am imagining could be secured without some mental exertion. The task would not be easy. The decisions will require careful thought. But I do not believe it would be any more difficult to organise the nation in such a way as would enable it to take the right decisions than it has been to create the elaborate organisation which now exists and which usually takes the wrong ones. We are not able to choose between a system that works satisfactorily by automatic adjustments and one which would operate by deliberate and conscious planning. The fact is that we can choose only between

muddling along from one disaster to another, or making the mental effort necessary to avoid those disasters. If we take the first course we shall travel the now well beaten track of internal social conflict, culminating in dictatorship and tyranny of one variety or another. If we take the second, our effort at intelligent direction will be rewarded, not only with economic security, but all the cultural opportunities that can be based upon it. The prize before us is nothing less than the saving of civilisation. It is worth an effort.

Moreover, these mighty, important decisions have to be taken *now*. An example of the errors that result from lack of co-ordination between the different sections of the economy and our failure to recruit the best advice still lives in the memory of this generation. Somebody decided in 1925 to return to the gold standard at a parity which, it has since been revealed, it was impossible for us to support. The miners' strike of 1926 and the General Strike which followed were a direct result of that decision. For years afterwards industry struggled under the burden which this decision imposed, and we endured all the consequences of unemployment and poverty associated with the effort of readjustment of costs and prices. We cannot escape the responsibilities of decisions upon which the welfare of an intricate and highly organised society depends. I am only arguing in favour of a structure of economic and social organisation which would enable the right decisions more easily to be arrived at by authorities conscious of their public responsibility.

I believe that the proposals that have been outlined in this section of the book would lead to advantageous economic results. They represent, at any rate, the kind of mechanism that would put it within our power to

control our economic destiny. As to how intelligently that mechanism will be used will depend upon the progressive will of the Government which happens to be in power. My case is that, through the Economic Council and the bodies responsible for financial, foreign trade, and industrial policy, the Government will be expected to achieve full employment of the labour and capital resources of the nation. It will be left with no excuse for failing to do so. For, although it will not control the enterprises engaged upon production, it will control the conditions to which these enterprises respond. If full employment does not result; if we are still enduring the paradox of poverty amidst potential plenty; then clearly it will be a result of the Government's failure to take full advantage of the powers and the opportunities that lie ready to its hand to bring about the conditions in which productive enterprise would expand to a full capacity of prosperity, limited only by the economic resources of the nation.

**PART III**  
**THE BENEFITS**





## CHAPTER XIV

### THE MINIMUM WAGE

Every reformer who advocates the distribution of additional benefits should feel that, by doing so, he places himself under an obligation to explain how the cost of these benefits is to be met. It is easy to take up an attitude of detached superiority and pronounce abstract moral judgments; to say "the standard of life of the people *ought* to be higher", "the workers *should* have greater security of income, shorter hours, holidays with pay", etc. etc., but this mere reiteration of "oughts" and "shoulds" will not enable the economic system to produce an extra pound of butter or an additional ton of coal. It is easy also to make the sweeping generalisation that, by employing the men and the resources now idle, more wealth could be produced, but, unless one accepts the simple view that under-employment is the result of the deliberate wickedness of some undefined group of persons, it is necessary to explain why there is unemployment and how it could be cured. The reformer who puts forward definite demands must make equally definite explanation as to how these demands are to be satisfied. He must show how the productivity of the nation can be increased by a better utilisation of its resources to create the wealth necessary in order to confer the additional benefits. If he cannot do so, he should not expect to capture the attention of informed opinion.

It is because I accept the obligation, not to promise

what I cannot see the means of fulfilling, not to encourage demands upon the economic system without showing how these demands could be met, that I have taken the reader on such a long journey in order to arrive at the advocacy of proposals which aim at the liberation of men from the constraints of poverty and insecurity. The material welfare of the population is a result of economic effort. If we are to determine the results, we must control the means by which they are achieved. The present system has produced the conditions summarised in Chapter IV. It was these revelations, not new and abstract academic theories, that forced us to reconsider the whole apparatus of the economic system. If we want different results, we must adopt different methods. The method of planning (controlling the means in order to achieve desired ends) which I have advocated holds out the possibility of increasing productivity through a wiser disposition of resources. It is upon this basis, I contend, that a higher and increasing standard of comfort and security could be built.

What, then, are the initial demands we are going to make? What is the burden of additional benefits that we shall expect the reconstructed economy to bear? Obviously the first need is a minimum wage, not only as a measure of social justice but because, in the reconstituted economy, a minimum wage rate would itself act as a stabilising factor. It would maintain the consuming power of those sections of the community who, in the absence of such a provision, would fall below the minimum level, and thus reduce to lower proportions the demand for the products of other industries. The minimum wage would be a stabilising factor affecting particularly the special list

of commodities in regard to which, we found in our examination of Sir John Boyd Orr's survey, certain characteristics: first, little or no real consumer's choice; second, relatively stable consumption in all income groups (either of the desirable commodity or of substitutes); and third, suitability for bulk handling and mass distribution in a simplified and specially organised distributive system. We shall come to a more detailed discussion of these methods of distribution in a later chapter. The point here is that the minimum wage, by raising the consuming power of the worst-paid workers, might be expected to increase and stabilise the flow of money into demand for these particular commodities which form the basis of a correct nutrition standard.

In discussing Mr. Rowntree's proposals for a minimum wage<sup>1</sup> I questioned the adequacy of a policy which merely proposed to order employers to pay a certain wage without taking account of their difficulties and of the repercussions upon the price-level. The proposals for industrial reorganisation that have been advanced provide an answer to this problem. We have already made our (admittedly arbitrary) classification of industries in their time-stages of development.<sup>2</sup> From the standpoint of the minimum wage, it would probably be found that, in the period of the initiation of new enterprises, the wage-level is already as high as, or higher than, any minimum likely to be fixed. The burden of observing fair-wage conditions is not likely to deter enterprises which, in this phase, and in modern conditions, are much more concerned with their heavy capital expenditure on plant and equipment. In any case, if a new industry can be

<sup>1</sup> Page 43.

<sup>2</sup> Page 181.

established only by employing workers at wages less than is necessary to obtain a standard of life "completely adequate for health", then there is every reason why it should be discouraged. If it is an industry considered necessary to national well-being or safety, and if, on ordinary profit-making reckoning, it cannot pay a living wage, then we ought to subsidise it out of the earnings of more profitable enterprises. Whatever may be its circumstances, there is certainly no case to be made for subsidising it out of the under-nourishment of the unfortunate workers forced to accept employment in it. However, it is not in regard to these new enterprises that difficulty is likely to arise.

In the second category, of industries that have been established and are going through their vigorous period of competitive expansion, there is little likelihood that observance of fair-wage conditions would be unduly burdensome. It is rather when they approach the end of their expansion or, if they are industries that live through the cycle, enter the stage when they may become static or declining and have to face problems of *unhealthy* competition arising from redundancy, that the maintenance of fair-wage rates becomes difficult.

It is precisely for the assistance of industries in this phase that our industrial reorganisation proposals have been designed. If a substantial majority of the owners agreed to a scheme of reorganisation, the statutory powers of the Enabling Act would be employed to eliminate redundancy and to secure the more orderly conduct of the industry. The use of these powers would put the industry in a position to pass on the savings of its greater efficiency in the form of a higher minimum wage for its workers. It is in this way that I see the close relationship of economic reconstruction to

the policy of a minimum wage, and indeed to any other policy for the improvement of the standard of life of the workers.

How much should the minimum wage be? It is obvious that any figure is meaningless unless it is related to the cost of living. For example, while this book was being written there has been a change in the prices of the items entering into Mr. Rowntree's family budget which has completely altered the money terms of his calculations.<sup>1</sup> But Mr. Rowntree did us the service of including a list of the items, and the quantities of those items, upon which his money calculations were based. It would, therefore, be a simple matter to recalculate the cost of his minimum requirements and express them in money terms. Reckoned on 1936 prices, Mr. Rowntree, it will be remembered, arrived at a figure of 53s. a week in towns and 41s. in the country as the wage necessary to obtain the minimum human needs of a man and wife and three children. This minimum wage "will suffice only for a family of five if it is paid for fifty-two full weeks every year". It must carry with it, therefore, payment for statutory holidays.

Mr. Rowntree has suggested that industry should be granted a five-years period during which to raise the

<sup>1</sup> " 'It is impossible to justify a sum of less than 55s. a week as a living wage today for a man with a wife and three children.' This statement was made in London last night by Mr. Seebohm Rowntree. In his last 'budget' book, *The Human Needs of Labour*, published last year, Mr. Rowntree gave 53s. a week as the minimum wage on which a man, paying 9s. 6d. weekly for rent and rates, could keep a wife and three children. He explained last night that his increased estimate of 2s. a week was due to the rise in the cost of living since the autumn of 1936. He estimated that 40 per cent of the adult urban male workers earned less than 55s. a week, and that over 33 per cent earned less than 50s.'— (*Manchester Guardian*, March 16th, 1938).

wages of lower-paid workers progressively, in preparation for a compulsory legal minimum at the end of that period. I think that, by means of the provisions we have outlined here for industrial reorganisation and general economic reconstruction, and in view of the urgency of a proper nutrition policy, for which an adequate wage rate must be the basis, the matter could be expedited. I would suggest that an Industrial Reorganisation Enabling Bill should be brought before Parliament at the earliest possible date and passed into law. At the same time a Minimum Wage Act should be passed, containing provisions that, at the end of each year following the passing of these Acts, the wages of all workers then falling below the minimum should be advanced by at least one-fifth of the amount necessary to bring them up to the minimum. It would fall upon the Trades Unions or, where no Trades Unions exist, the Trades Boards, to see that these progressive increases were made during the specified periods, or failing that, to report the matter to a Minimum Wage Tribunal.

There is an obvious danger that some employers might seek to evade their obligations under the Minimum Wage Act by prolonging the hours of labour. Action would need to be taken to prevent this. The Act would have to stipulate that the wage was payable for the hours of labour normally worked in different employments before the Bill was first introduced, and again it would be the function of the Trades Unions or the Trades Boards, together with the Minimum Wage Tribunal, to exercise their vigilance on behalf of the workers concerned.

The money amount of the minimum wage would be fixed in accordance with the purchase price of minimum human needs determined in the way used for

the Rowntree scale. It would be part of the duties of the Tribunal (which might usefully include nominated members drawn from a central employers' association and from the Trades Union Congress General Council) to inform the responsible Minister of changes in the cost of living beyond defined limits which required a variation in the money amount of the minimum wage. The statutory minimum *family wage*, as defined by Mr. Rowntree, should apply to all adult male workers of 21 years or over. The lower minimum rate (of 30s. 9d. at 1936 prices) might apply, as he suggests, to women workers who do not normally have a family to support. It may be argued that this would involve cases of hardship where women are, in fact, the family breadwinners. Nevertheless, it is impossible to vary the rate to suit individual cases. Where a woman is supporting a family, the cure in any case lies in the relief of her burden by suitable extensions of the social services.

It may also be objected that young unmarried men need not be paid a family wage when they have no family to support. The answer to that is that too many of them are unmarried precisely because of their inability to support a family. The State has no right to interfere in regard to whether a man chooses to marry or not, but it has the duty, in my opinion, to make it financially possible for him to do so if he desires. Moreover, if there was any discrimination in wage rates, paid by the employer, as between married men and bachelors, there would be a tendency for employers to give preference to unmarried men.

Another point of difficulty arises from the fact that Mr. Rowntree's scale is based upon the barest suffi-



ciency for a family of three children. About one-third of the children in the households affected belong, however, to larger families, and this scale would leave them inadequately provided for during a period of five years of their dependent life. It is to be hoped and expected that the family income in some of these larger families will, as a result of the ordinary methods of Trades Union bargaining, be well above the minimum, but there will remain cases of low-paid workers unable to obtain more than the minimum and having a family of more than three children. We cannot face with equanimity the prospect that a section of the child population should continue to endure poverty which places them on a nutritional standard lower than the bare minimum represented by the proposed Rowntree scale.

It will, of course, be possible as time brings experience and as industry adjusts itself to the new conceptions of planning, to raise the minimum wage to a higher and more satisfactory level. But this process of adjustment cannot be hurried, and it is in every way advisable that we should start by establishing the principle of a minimum wage at the lowest tolerable level, so that the risk of disturbances of the price level can be reduced. The Rowntree standard might be regarded as the lowest tolerable standard for health reasons, and, at the same time, the highest with which industry could cope at the beginning.

The only way that appears to be open to us to make some provision for the children of larger families living on the minimum income scale, is some method of children's allowances. If these were paid at the rate of 5s. per week for each child in addition to the three provided for where the family wage-earner is on the

minimum wage, Mr. Rowntree estimates that the cost would be "substantially less than six million pounds a year". It is true that such a scheme might be financed by providing for tripartite contributions—from employers, workers, and the State—but, I believe, that this would throw an unduly heavy burden upon industry. The alternative is to arrange for a State-financed system of extra free allowances of foodstuffs important to nutrition. In my opinion, this would be the better course.

In the next chapter I shall have proposals to make for a public utility organisation for the distribution of certain commodities. These proposals follow from our examination in Chapter IV of the different items in the budget of human needs, the quantities in which they are consumed, and the methods by which they are distributed. If these proposals were to be carried out, they would provide a channel through which the additional free supplies for children in this special category could be distributed.

Before going on to that subject, there is, however, another aspect of minimum wage policy with which I must deal. The whole policy of industrial and general economic reconstruction aims at two main results: (a) an increase in the productive efficiency of each industry with the consequent economies in production costs, and (b) a greater flexibility of the system and a wiser direction of the distribution of our resources to maintain an increased volume of productive employment, a consequent increase of the national income, and a lightening of the social burden of unemployment.

The pursuit of this policy would provide an ample margin of saving out of which the additional wages

could be paid, without adding to retail prices. We must face the possibility, however, that, in spite of our precautions, some producers might still attempt to pass on to the consumer the increased costs of the minimum wage in the form of unjustifiably higher prices. The social consequences of such a rise in prices by any particular industry would be clear. The industry would, by its action, be adversely affecting all other enterprises; for the minimum wages the other industries would have to pay would be increased by any rise in prices that affected the cost of living.

One might expect, therefore, that the vigilance of the consumer would be reinforced by that of other producers and that the weight of this social condemnation would be enough to compel a worthier sense of social responsibility on the part of the offending industrial or commercial undertakings. If that did not suffice, then it would be the duty of the Government to devise other means of ensuring that the minimum wage should be regarded as a first charge upon industry, and that it should be met out of increased productivity and greater efficiency, and not out of higher prices. An additional safeguard, not to be despised in modern conditions, is the power of Parliament to withdraw from an offending industry any of the advantages such as tariff protection, subsidy, or statutory approval of schemes under the Enabling Act which it might be enjoying.

In any event, the establishment of a legal minimum wage would be a great step forward, commanding the sympathy and support of the great majority of the nation. It would be a measure of social justice, lifting up to a tolerable human standard the unfortunate families now living in conditions that are a disgrace to the community; it would be a measure of economic

wisdom, in that it would act as a stabilising factor by putting a bottom to the market for consumers' goods; it would be a spur upon scientific and technical progress, and a basis upon which might be built a much higher standard of comfort and security in the future.

## CHAPTER XV

### A MINIMUM FOR THE UNEMPLOYED

It is clearly true that if, as a result of the industrial and social reconstruction we have suggested, the demand for labour can be maintained at a high level, the importance of a minimum wage for employed workers, as a contribution to the abolition of excessive poverty, is enormously enhanced. It is a great step forward in social progress to establish a minimum price for labour at all, but it is a much greater and by far more important step if the demand for that labour is maintained at a high level. The higher the level of stable employment, the greater will be the number of persons benefited. They will be benefited, not only by the minimum wage, which will act incidentally as a buttress to the whole wage structure, but by the greater security of employment. This greater stability, moreover, will benefit, as well as the wage-earners, every other class in society. If there is a high level of employment, and therefore of business activity, the demand for all services, whether manual, clerical, managerial, or professional, will be favourably affected.

But a highly developed, intricate, and dynamic economy could never be regulated with such precision as to ensure that *no* unemployment would ever occur. It is in the very nature of economic progress that there should be fluctuations in the volume of employment. Apart from the seasonal and fashion changes and the inevitable ebb and flow of demand for different classes

of goods, there is the diversion of resources for the creation of new products, and the substitution of demand for the new products in preference to the old. These fluctuations will continue to create unemployment. If our planning is efficient, it should merely be the temporary short-term unemployment corresponding to the *variations* of demand at a high level and to the flow of workers from one form of employment to another. There will always be, of course, a number of persons normally classed as able-bodied unemployed, who are either too aged or infirm, or too idle, to work. These, however, constitute a separate social problem, and are largely unaffected by industrial fluctuations.

We shall discuss in a moment what action should be taken to provide a standard of life for the unemployed, consistent with the minimum nutrition standards that are necessary. In the last chapter we saw the relationship of general economic organisation and policy to the minimum wage. Here we must see its relationship to the maintenance of the unemployed. Mr. Rowntree reminded us that his minimum would suffice only if it was paid for fifty-two weeks in the year. We know that, even in the most perfectly organised society, all the people will not be employed all the time. There are bound to be interruptions. Before attempting to discuss the nature of the provision we can make for the maintenance of the unemployed, therefore, it is necessary that we should examine more closely what the volume of unemployment is likely to be in the new circumstances which we are visualising.

The first question that must be asked is whether it is possible to show, by an analysis of the present unemployment problem, that it arises from causes which the policy we have outlined is designed to remove. The

object of our economic policy is to achieve and maintain a direction of capital and labour resources into the different channels of economic activity in the proportions that will bring about such an equilibrium in the volume of different categories of goods and services as will enable them all to be exchanged for one another at prices covering their costs of production. We know that this result is not being brought about today by the unco-ordinated activities of the various banking, industrial, and commercial enterprises *at a sufficiently high level* to absorb into employment the whole of our capital and labour resources.

I have pointed out that, even in the most carefully planned economy, the inevitable fluctuations would leave us with a certain number of workers temporarily unemployed. This is what may be called *normal* unemployment. If we are right in stating that the economic system is today working in such a faulty, inefficient way as to justify drastic changes in order to institute methods of economic and social planning in place of the unco-ordinated decisions of individuals, then we ought to find some reflection of this fact in the unemployment that now exists. We *should* find that unemployment is *abnormal*; that the total number unemployed is greater than can be accounted for by normal fluctuations; that it is not evenly spread, either in its intensity or in the individual periods of duration, as between different occupations; that there are stubborn pockets of long-term unemployment reflecting the decline of employment capacity in some occupations and the failure of new occupations to absorb the labour thus displaced.

That is what a study of present unemployment *should* reveal, if our analysis of the economic problems

of today is correct. And it is, in fact, what has been revealed by the detailed investigations that have recently been made. The results of these investigations were conveniently summarised in a series of lucid expositions that appeared in the *Economist*.<sup>1</sup> Sir William Beveridge is quoted as saying that "the beginning of an understanding of the problem of unemployment is to break it up". The articles then proceed to make a threefold distinction by dividing unemployment into Normal, Cyclical, and Special Unemployment.

*Normal Unemployment* is defined as "that temporary unemployment which exists at any time in a dynamic, changing economy. It is due to the inevitable interval of time which elapses between one job and another, or to seasonal fluctuations, or to casual labour, or to any of the other frictions which prevent a perfect adjustment between the demand for and the supply of labour. This type of unemployment will be present in good times as well as bad."

*Cyclical Unemployment* is defined as being "created by the fluctuations of the trade cycle; at the height of the boom it disappears altogether, but at the bottom of the slump it may well overshadow normal unemployment".

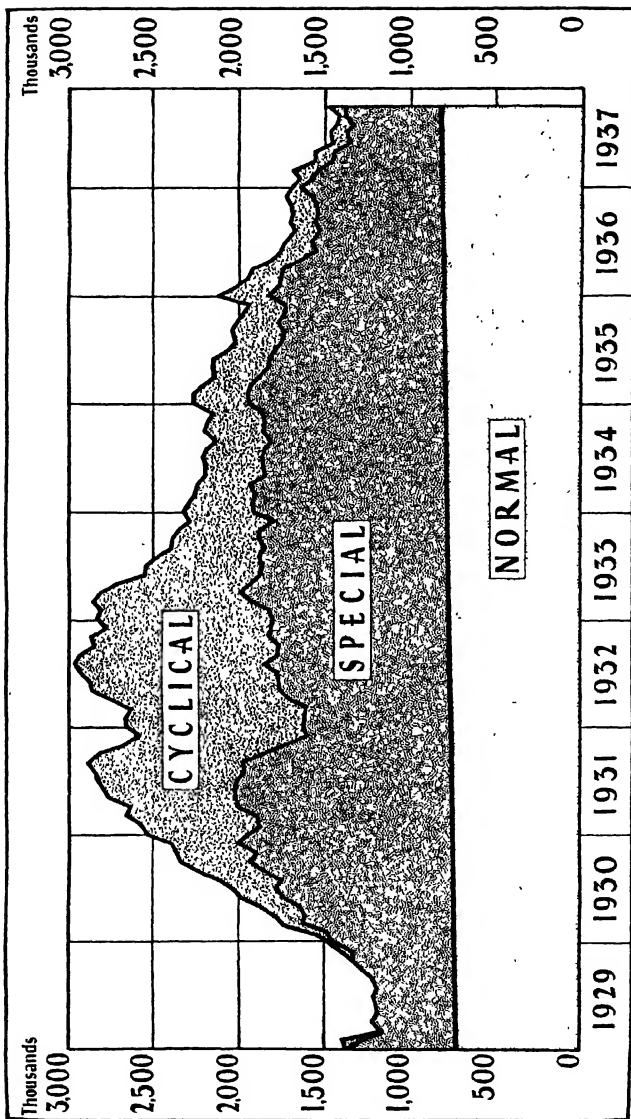
*Special Unemployment* is explained as "that variety which has afflicted the depressed areas ever since the war . . . due to a more permanent or, at any rate, non-cyclical change in the economic position of the areas affected".

The relative importance of these three types of unemployment is clearly depicted in the chart on p. 316.

With the aid of this chart we are able to see more

<sup>1</sup> June 13th, 1936; March 20th, 1937; and January 1st, 1938.





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clearly the objective towards which economic policy must be directed.

Let us leave cyclical unemployment aside for a moment and concentrate our attention upon the central block of stubborn and persistent special unemployment. This is the hard core of the burden that has afflicted us ever since the war. Every reader will be familiar with the fact that this unemployment is almost entirely accounted for by the decline in the employment capacity of the export industries and of the industries and services dependent upon them. In theory this surplus labour ought to be absorbed into new expanding industries. In fact we find that, owing to a variety of reasons, this is not taking place. The economic system has become more rigid. It has lost the flexibility that would enable this adjustment to take place by the spontaneous reaction of investors and entrepreneurs. This is partly an inevitable occurrence, due to the competitive industrial development of the countries of the world, while they are still at unequal stages of social and political development, and also to the increase in the amount of capital that has to be locked up in plant and equipment in an efficient modern industry. It is partly the result of these factors, and many others to which they give rise, but it is also partly due to deliberate social policy.

The orthodox theory that, under conditions of free competition, a profit-making society would adjust itself to changes in demand and bring about a redistribution of its capital and labour resources might still be largely true despite the technological changes, if the price of labour were left to be determined by the competitive conditions that had to be encountered. But for a hundred years we have, in this country, been pursuing deliberately a

social policy which militates against this flexibility. By Factory Acts, Minimum Wage Boards, Social Services, and the like we have been building up barriers of defence to protect the worker from ruthless exposure to that kind of economic adjustment. By legal trades-union action he has added to these defences of his own accord. It may be true that unemployment could be reduced by lowering the standard of life to a competitive level—that is, more or less to the level of our competitors, whether they be white, black, or yellow—but we are committed, by a long history of beneficent social legislation, to the task of finding some other route of escape from our difficulties.

I suggest that the escape is to be found only in the planned direction of economic activity. We have seen what is being done by some industries as a result of the voluntary co-operation of their units, and by others with the political assistance of the Government and the financial assistance of the Bank of England, to scale down their productive capacity.<sup>1</sup> It is surely equally important that the Economic Council, defined in Chapter XIII, should devote itself to the task of directing capital into new channels, in order usefully to employ the idle workers thrown off by the declining industries. If this policy were operated with energy and intelligence, then the nation would be fulfilling the function that can no longer be fulfilled by the unaided efforts of private entrepreneurs. It would create, as a result of deliberate economic policy, new opportunities of productive employment, and seek to establish and maintain the economic equilibrium in which all our resources would be employed in the balanced pro-

<sup>1</sup> Where the loss of trade is permanent this contraction will inevitably take place, by bankruptcy, if by no other method.

duction of goods and services that would exchange for one another in the market. The point I am making is that Special Unemployment is a reflection of the fact that an unplanned capitalism is no longer able to carry through the adjustments necessary to the transfer, on a sufficient scale, of workers from one industry to another: and I am claiming that this wasteful and excessive immobilisation of labour, nominally attached to industries in which it can never again be employed, could be ended, as a result of the planned direction of resources contemplated in our economic policy.

I have proposed that the scaling-down rationalisation process should be further assisted and encouraged under an Enabling Act, or, in some cases, by public utility control. Instead of waiting on the slow process of bankruptcy, the scaling-down would be expedited in a planned economy by deliberate and rational means. By this process unemployment will not be cured, but it will be clarified and defined.<sup>1</sup> The cure is

<sup>1</sup> "Whatever the aggregate live register may prove to be, it will still be its composition rather than its size that, over a period, forms the problem of unemployment and insurance. . . . If, year after year, a manufacturing industry shows a loss of trade to other competitors or a reduction in the total demand for its products, accompanied by high levels of unemployment, mainly in the same areas and to a large extent among the same persons, it only confuses the issue to treat those persons as though they properly belonged to that industry, could reasonably expect to earn their livelihood from it in the near future, and had therefore some claim, on behalf of the industry as well as of themselves, to be maintained where they are, in virtue of a statistical classification that no longer has any meaning.

"It may be argued that it does no one any good to terminate formally such a nominal attachment to an industry, unless by so doing the unemployed persons improve their chances of obtaining employment. This is not correct. An accurate measurement of the amount of *real* unemployment in each industry is essential if the organisations representative of the industry are ever going to attempt to work out for themselves some employment policy

to be found in the planned direction of capital and labour resources into other avenues of employment by the planning organisations to be created for that purpose. The object of the planning authorities will be to achieve a balanced production. There is no other way of eliminating this persistent and chronic special unemployment except by realising that objective. In the days of the rapid widening of the world market and the spread of industrial technique into new territories this adjustment of the balance of production was achieved by the relatively simple process of bankruptcy on the one hand and natural speculative opportunity on the other. The world has developed since then. In modern conditions the process is much more difficult. In so far as it is being carried out today it is, as we have seen, by voluntary co-operative efforts, analogous to the more formal and deliberate methods of social organisation I have adumbrated.

I cannot prove beyond any shadow of doubt that, by the enlistment of planning methods, new opportunities *will* be found to engage the whole of our labour force in productive employment. All I can say is that, so long as there is a shortage of goods and services, it *can* only be a question of the planned distribution of effort to produce them in the quantities at which they will exchange. If that is not true (and it sometimes appears as if the critics of planning hold it in question), if it is beyond the power of men to organise the wealth production and distribution of society by the same

which will introduce a firmer regularity into their demands for labour. To contemplate a swollen personnel, part of which is continuously idle, is almost as depressing for an industry as to be weighed down by an inflated capital much of which can never earn its keep" (Evidence of the Ministry of Labour to the Royal Commission on Unemployment Insurance).

rational methods as we employ in the conduct of our own private businesses, then there is no reality in the science of economics other than the formulation of negative anticipations after the manner of weather prophets.

There can be no doubt that it *is* within the power of men to arrange the full employment of their efforts, to increase the production of wealth, and to maintain proportions between the different products that will enable them to exchange for one another. The difficulty arises over the prices at which they will exchange—*i.e.* how many loaves of bread are to be obtained for a ton of coal. It is difficult. I cannot prove that it *will* be done, however foolproof the organisation may be that we set up to do it. But it *can* be done, and my contention is, that we are more likely to do it efficiently and well if we *try* to do it collectively, rather than leave it to the chance that, in the long run and after disastrous blunders, the same result might emerge from the efforts of countless individuals all acting in contradictory ways.

In so far as this redistribution of effort, and the balanced production of goods and services in accordance with market requirements, is achieved and maintained, the volume of unemployment will be reduced. The only alternative policy to planned direction that I am aware of would be to remove all the barriers to automatic adjustment that now exist, and allow the standard of life and the conditions of employment to be freely determined by uncontrolled competition. It would be an exaggeration to say that this would mean a reduction of the workers' standard of life to the coolie level of some of the new industrial countries. We still have an advantage of greater skill and experience. We can still maintain a higher standard of life and compete

successfully in the higher-skilled products. But in the nature of things this is only a temporary advantage. The tide of cheap labour would steadily encroach upon a greater and greater area of productive effort, and the standards of an increasing number of workers would tend to fall to the level of their competitors.

At any rate, whatever may be said for this system in *theory*, it is clear that we cannot return to it in *practice*. To attempt to do so would, in my opinion, be both morally wrong and economically unsatisfactory. In any case it is politically impossible. Even the advocates of the theory do not believe that it can be carried to its logical conclusion of absolute free competition. Indeed these advocates are often among the most insistent social reformers. They desire to increase the social provisions for the protection of labour. They recoil from the notion that life should be utterly debased in the service of a relentless economic mechanism. They support measures such as minimum wage rates, unemployment insurance, pensions, shorter hours, healthy factory conditions, Trades Union rights of collective bargaining, and hundreds of other such enactments which increase the rigidity and inflexibility of a competitive economy. And they refuse to recognise that these legal rights and restraints, plus the natural impediment of the increased proportion of fixed capital in modern industry, make much more difficult the adjustments that are necessary to the full employment of our labour resources.

In spite of everything that has been done by successive Governments throughout the post-war period to assist, by transference and retraining, the liquidation of special unemployment, the adjustments have not been carried out. This is because we have today

neither a free competitive economy nor a planned economy. We are hesitating between the two and enduring the worst of both worlds. We ought to recognise that, if it is morally and economically undesirable, and politically impossible, to restore the free market and free competition, we must adopt the alternative of national planning on a sufficiently comprehensive scale to carry through the necessary adjustment by the conscious, deliberate, and co-operative efforts of national policy. For that purpose a machinery of co-ordination is essential on some such lines as those that I have suggested.

We may assume, then, that, by these methods, the volume of Special Unemployment can be considerably reduced, if not completely eliminated. We have still to consider Cyclical Unemployment. We must ask whether there is anything in the policy set out in Part II that would minimise these fluctuations and establish conditions of greater stability.

I have already argued that the plan of industrial reconstruction and economic co-ordination would bring under conscious control many of the factors that contribute towards cyclical fluctuations. We have now added to those provisions a minimum wage, and in the next chapter I shall suggest an organised effort to reduce the waste of redundancy in certain branches of commodity distribution. If it is true that industrial reconstruction would enable minimum wages to be paid, and that the public utility distributive agency would reduce prices to the consumer, then we have another buttress to stability in the maintenance of consumers' demand at an irreducible minimum. If there is any validity in the arguments previously advanced and in the observations I have made regard-



ing special unemployment, then it follows that the cyclical fluctuations would be greatly modified.

Indeed, it is the whole object of the policy of reconstruction I have been advocating that the responsible organs of authority to be set up should be able to overcome the difficulties of adjustment reflected in the figures of special unemployment and, by the same kind of action, bring under control the factors that give rise to the fluctuation of the trade cycle. If this can be done, we shall be faced in the future with the much more manageable problem of normal or intermittent and occasional unemployment—that is of persons unemployed for only short periods. It is impossible to produce any certain calculation of the volume of this unemployment which the new system would have to face, for we have no experience of an economy planned on the lines that have been proposed; but some indication is to be gained from the estimates, taken from Trades Union records, of the volume of unemployment in the latter part of the last century and the beginning of this century, when, because the world had not yet developed on such highly competitive lines, there were natural openings occurring to facilitate the adjustments which can now be achieved only by deliberate effort.

“The basis of these figures is too narrow to permit them to be regarded as furnishing an absolute measure of the level of unemployment. There are, however, reasons for believing that the figures at least provide a basis on which to form a fairly good estimate of the fluctuations of employment in the pre-war period. First, regarding the figures in the light of common knowledge, we find that in the trade depression of the middle 'eighties the mean annual percentages rose from 2·6 in 1883 to over 10 in 1886, while the depres-

sion in the early 'nineties is reflected in the steady rise of the figure from 2.1 in 1890 to 7.5 in 1893. Again, the trade depression of 1908-9 can be traced in the rise of the percentage in these years to over 7, while war-time conditions caused the figure to fall below 1 per cent. Secondly, if we test the figure by comparison with the percentage of insured workpeople unemployed for the four years, 1921-24, for which that percentage is available, we find a surprisingly close agreement, the average figures for the whole period being 13.1 according to the insurance statistics, and 12.3 according to the trade union returns."<sup>1</sup>

It should be noted that the figures quoted refer to years of trade depression. Actually for the great majority of the years between 1881 and 1913 the annual mean of monthly percentages returned as unemployed fluctuated between 2 per cent. and 4 per cent.

"The figures suggest that, before the war, the country seldom, if ever, had to carry a load of 1,000,000 unemployed persons. Further, in pre-war times, spells of severe unemployment did not continue for periods comparable in length to the present depression, which has already (in 1925) lasted for five years."<sup>2</sup>

That is to say the highest peaks of unemployment never reached 1,000,000. The normal "out and in" unemployment was probably about 400,000 to 500,000. It would indeed be a tremendous lightening of the unemployment burden if, as a result of economic reconstruction, we could at least achieve an employment situation equal to that of pre-war years. I do not believe this to be impossible.

If it is legitimate to anticipate such a reduction, then the maintenance of the unemployed at a standard that

<sup>1</sup> Balfour Committee. *Survey of Industrial Relations* (1926), p. 33.

<sup>2</sup> *Ibid.* p. 34.

bears some relationship to nutritional requirements becomes comparatively easy.

“Obviously, the type of provision against unemployment will vary with the type of economic system within which unemployment occurs.”<sup>1</sup> But, even if our hopes are too optimistic and the average level of unemployment, allowing for a continuation of some measure of trade-cycle fluctuations, proves to be even as high as 1,000,000 persons, it is still possible to devise a method of insurance which would provide a basis of security to the unemployed person as well as to the employed.

Under the present arrangements, the able-bodied unemployed are divided into two classes: (a) those who, as a result of their payments into the insurance fund, are entitled by right to a fixed rate of insurance benefit for a fixed period of time, and (b) those who, having exhausted their legal claims upon the insurance fund, are provided for in accordance with their family needs under the Unemployment Assistance Act.

Under the Insurance Act, an insured contributor, who has paid 30 contributions in the last two years and is otherwise qualified for benefit, may receive 156 days' benefit in his benefit year. Additional days' benefit may be received if, at the beginning of his benefit year, at least five insurance years have elapsed since he first became a contributor. These additional days of benefit are calculated according to a ratio rule which takes into account the number of contributions he has paid and the number of weeks' benefit he has previously drawn from the fund. The amount of the insurance benefit paid to a man over 21 and under 65 is 17s. per week. If he is married, he also receives an additional adult dependant's allowance of 9s. and an allowance

<sup>1</sup> Royal Commission on Unemployment Insurance.

for each dependent child of 3s. The benefit rates for agricultural workers are slightly lower, being 14s. for a man, 7s. for an adult dependant, and 3s. for each dependent child; but the total rate of agricultural benefit is subject to a maximum of 30s. per week.

The Agricultural Insurance Scheme operates differently from the general scheme also in respect of the number of benefits that can be drawn. The rules are:

- (a) Twelve days' benefit for the first ten contributions standing to the claimant's credit at the beginning of the benefit year.
- (b) Three further days' benefit for each such contribution over the first ten.
- (c) A maximum of 300 days' benefit in a benefit year.
- (d) No benefit if there were less than ten contributions standing to the claimant's credit at the beginning of the benefit year.

It is not necessary here to go into further details of the working of the insurance scheme. Sufficient has been said to make it clear that the rate of insurance benefit (and the Unemployment Assistance payments, which are usually slightly lower) falls far below the level which has been laid down as the minimum necessary "for physical efficiency". Regarded from the point of view of an adequate and satisfactory nutrition policy, it is obvious that the incomes of the unemployed ought to be raised. But any proposal to increase the amount of benefit will invite the criticism (a) that a high rate of benefit in proportion to wages would encourage malingering, and (b) that the Unemployment Insurance Fund could not, at the present level of insurance contributions, pay a sufficiently high rate to meet a desirable nutritional minimum.

I have endeavoured to show that, as a result of adopting the economic policy I have outlined, there would be a reduction in the number of persons unemployed. This would make possible an increase in the amount of benefit for the same contributions as are now being paid. The whole of the saving due to the reduction of numbers would not, however, accrue to the Unemployment Insurance Fund. We have anticipated a large reduction in the field of Special Unemployment and some reduction in the unemployment arising from cyclical fluctuations. A considerable proportion of those persons who now come under the Special Unemployment classification is probably falling upon the Unemployment Assistance Fund, which is quite separate from the Insurance Fund. The savings in respect of such persons should accrue to the State. There would, however, be some relief to the Insurance Fund, especially if we were able to feel that the cyclical fluctuations could be reduced and that provision against the risk of slumps need not be made on the same scale. These savings could be allocated towards an increase in the amount of benefit to bring it nearer to the desirable minimum.

The rates of contributions under the 1934 Act were fixed at 10d. a week for men and 9d. for women. In 1936 they were reduced to 9d. and 8d. respectively, with corresponding payments by employers. It was in 1934 also that the Unemployment Assistance Board was set up to administer the scheme of assistance to those unemployed persons who exhaust their claims upon the Insurance Fund. For the year 1934 and for each of the subsequent years since the passing of the 1934 Act, the Insurance Fund has shown a surplus. This surplus amounted to £1,788,446 for the year ended March

1934; £10,999,333 for the year ended March 1935; £24,241,006 for the year ended March 1936.<sup>1</sup> The average percentage of persons unemployed for these years, exclusive of juveniles under 16 and persons insured under the Agricultural Scheme, was 16·6 per cent, 15·3 per cent, and 13·0 per cent.

During 1937, income continued to exceed expenditure and the net balance in the fund is now £60,379,006.<sup>2</sup>

To obtain some conception of the reduction in the numbers falling upon the Insurance Fund that might be obtained as a result of economic policy, these percentages may be contrasted with the calculation made by the *Economist* in the last of the series of articles already referred to:

“The assumed percentage of normal unemployment has been increased from  $5\frac{1}{2}$  to 6. The higher figure seems to accord better with the circumstances of 1929, when the volume of unemployment in the most prosperous part of the country can be supposed to have been reduced to, or even below, the normal level for several months.”

It is clear that, if a reduction of anything like this magnitude could be obtained, the Unemployment Insurance Fund would be able to pay considerably higher benefits.

If it were found to be necessary to increase the income of the Insurance Fund in order to pay higher benefits, there are many ways in which this might be done, without increasing the present rate of contributions. The present scheme, it will be remembered, is

<sup>1</sup> Cmd. 5556. Twenty-Second Abstract of Labour Statistics (p. 69).

<sup>2</sup> Report of the Unemployment Insurance Statutory Committee (March 1938).

not of universal application. It was started in 1911 for particular industries with periodic high percentages of unemployment. Since the war, the boundaries of the scheme have been greatly extended and the process of extension is still going on.<sup>1</sup> Although the risks of unemployment vary greatly between one industry and another, the rates of contribution and of benefit are the same. The Ministry of Labour produced evidence before the Royal Commission on Unemployment Insurance, showing a list of industries which had drawn far more out of the fund than had been paid in on their behalf, and another list of industries in which the opposite had happened.

It cannot be said, therefore, that the present scheme adjusts payments to risks for single industries. The risk is spread over all the industries included in the scheme, and the administrative convenience of equal payments is preserved. With every extension of the scheme, we are coming nearer and nearer to the idea of a common pool, and I suggest that, in the new economic circumstances which we are envisaging, the argument in favour of extension to all forms of employment would be irresistible.

The interdependence of all forms of economic activity, and the fact that a falling-off of demand in any one industry must call forth actions and reactions throughout the whole system, was referred to by the Blanesburgh Committee: "All industries are, in a sense, inter-related and the effects of lessening production in one are felt to a greater or less degree by the others. A risk, too, which is slight for an industry as a whole may be serious for some of the individuals who work

<sup>1</sup> A recent extension brings within the scope of the scheme a large number of people previously classed as in private service.

in it." It is the recognition of this interdependence that forms the basis of the economic proposals I have advanced. If these proposals were carried out and we set up planning organisations to act in accordance with this principle of interdependence, it would be illogical not to apply the same principle to Unemployment Insurance. Instead of spreading payments to cover the risk of unemployment over occupations arbitrarily selected by Parliament, we should spread them over all forms of employment. This would give to all employees the security that insurance can give, and take, from them and from their employers, contributions towards a general insurance fund out of which much higher benefits could be paid. The workers who are so favourably situated as to enjoy a great measure of security of employment, and the employers for whom they work in such sheltered occupations, are enjoying conditions of prosperity that are contributed to by other enterprises, where the fluctuations of trade are greater. It would be no hardship to ask them to contribute towards a fund which, by maintaining higher payments, would be helping to stabilise consumers' demand and to maintain prosperity for the community as a whole.

It is possible, therefore, to state with confidence that, under the reconstructed economy, a higher rate of benefit *could* be paid to the unemployed. The question then arises as to whether, if the benefits were raised to a level consistent with our ideas of the right of the citizen to minimum human needs, malingering would be encouraged.

The danger that workers might be tempted by a high rate of benefit to prefer benefit to wages is a real one, and we must not avoid discussing it because, at the



first glance, it appears to be a harsh judgment. The fact is, of course, that the overwhelming majority of workers are pathetically anxious to obtain employment and would not be deterred from seeking it, however high the rate of benefit might be. This is not because of any excessive virtue, but because most men naturally prefer useful work to meaningless idleness. Their sense of dignity makes them prefer to be useful creative citizens occupying their place in the social scheme of things on an equal footing with other men, rather than to be unproductive dependants living a life devoid of constructive purpose. Very often the incidents that give rise to the view that men prefer benefit to wages arise not because benefit is too high, but because the wages offered are too low.

Nevertheless, it is true that laziness exists, and that society has to protect itself against it, but it would be rather an excess of caution to penalise the great majority of workers in order to guard the Insurance Fund against a few. The right course is surely not to keep unemployment benefit so low as to run the risk of inflicting permanent physical injury upon dependent children, and thus visit the sins of a small minority of fathers upon all the children of the unemployed, whether their parents be idle or industrious, but to find a method that would enable us to give rein to a more generous social impulse, while taking precautions to guard against fraudulent imposition.

Can we devise such a method? There does not seem to me to be much difficulty in discovering the key to the solution. Under the existing provisions, it should be remembered, an unemployed man *must* accept an offer of suitable employment. The danger is that some men may make no attempt to obtain employment of

their own accord. The first step is obviously to put the Employment Exchanges in the position of being able to offer suitable employment. The same authority that distributes benefit should, as far as possible, be in a position to influence the distribution of work. There need be no interference with the methods that have been adopted by many business enterprises for the recruitment of labour. Many industrial undertakings keep careful records of the particular qualifications of their men, and it often happens that they know exactly which men they want for particular jobs. This method of recruitment need not be interfered with by a provision that the Employment Exchanges should be notified of all vacancies that occur. Not all the jobs are of such a special character as to require a particular class of person. Notification of all vacancies would put the Exchanges in a stronger position to avoid keeping the same men on their books for a long period. They could perhaps distribute the opportunities to work more evenly ; that is to say, they would try to fit into a job the person who had had the longest spell of unemployment. This is being done today, but it could be done more effectively if all vacancies were notified, and it would have the result of keeping up the standards of skill and fitness of men who tend to become less fit for work the longer they are idle.

The next point is more controversial. I think that, with a more generous scale of benefit, the interpretation of what constitutes suitable employment might be varied in accordance with the length of the period for which a man had been unemployed. I suggest that, for the first three months, suitable employment should be interpreted, as at present, as employment in the particular occupation in which he has been accustomed to

work. In the second three months this might be interpreted more broadly as work of the same or a *similar character*, which his skill and training would fit him to perform, in occupations that might be different from that which he usually followed. If at the end of this six months' period a man was still unemployed, then he should automatically be placed upon a list of persons who would continue to draw an unemployment allowance (for at this stage they pass out of Insurance on to Unemployment Assistance) conditional upon their holding themselves available to give, say, two or three days' work per week on any public works schemes in which they are physically fit to take part.<sup>1</sup>

After a worker has exhausted the insurance benefit for which he has paid contributions and to which he is therefore entitled as of right, his only title to a claim upon the community for maintenance is that he is ready and willing to offer his labour in return for the com-

<sup>1</sup> "*Labour Government of Sweden*.—It was in 1914 that a Government organ known as the Central Unemployment Commission was set up to organise and direct action for the relief of the unemployed. At the same time, local Unemployment Committees, the members of which were appointed by the appropriate local authority, were established, their function being to initiate or encourage local measures designed to prevent unemployment or attenuate its effects. These local committees were further responsible for the selection of labour for relief schemes and generally for the local administration of unemployment relief. This organisation has remained in existence continuously up to the present time.

"It has throughout been a principle of Swedish policy that, so far as possible, relief should be given in the form of work and not in the form of pecuniary grants. It was therefore the primary function of the Unemployment Commission and its local committees to enable the unemployed to earn their own livelihood by participating in the execution of public works. These works are known as 'reserve works', and are divided into three groups—state reserve works, state-communal reserve works, and communal reserve works" (extract from article, "Unemployment Policy in Sweden," by Mr. Geoffrey Wilson, *The New Fabian Research Bureau Quarterly*, No. 15, Autumn, 1937).

modities he must consume. The community, on the other hand, has the responsibility of providing him either with the opportunity to work or with maintenance while it is unable to do so. The individual citizen contracts, as it were, with society to fit himself into a scheme of social organisation. This, under modern conditions, necessarily divorces him from the opportunity of sustaining himself by his individual effort to exploit the resources of Nature. Since he has become part of a social or co-operative organism, the initiative in directing his economic effort has largely passed from himself to the society of which he has become a member. It is the duty of society to maintain him, therefore, but it is also the duty of the individual to offer his labour power in return for that maintenance, to be utilised by society in any constructive tasks for which he is physically and mentally suited.

It follows from this that the recruitment of labour for public works should also be through the Labour Exchanges, and that the particular kind of public works carried out in any locality at any time should, as far as possible, be determined by the kind of labour available. We might usefully set up in the area covered by each Labour Exchange, or, in more congested areas, by a group of Labour Exchanges, advisory bodies drawn from the local authorities, whose function would be to consider what employment might be offered to the particular types of labour available among the unemployed persons who had exhausted their insurance benefit. A great deal of useful work might be accomplished in the improvement of amenities, the tidying, cleaning, and beautifying of the localities, or in the carrying-out of a number of socially useful tasks that would otherwise have been neglected. The labour

might be offered to the local authorities free and the cost of maintenance be borne, as at present, by the National Exchequer.<sup>1</sup> If the expectations we have based upon the economic policy for a planned society are realised, there should never be very many persons out of work for more than six months, but in so far as this prolonged unemployment did occur, the labour should be utilised in some constructive way.

I have suggested that the unemployed persons falling into this category should be expected to offer services for only two or three days per week in return for maintenance. There are two reasons for this. First, the money value of their maintenance would probably not be high enough to recompense them for a greater amount of work. In the second place, it is important to realise that, in the planned society we have described, periods of unemployment of longer than six months would be an indication that the opportunities for employment in the occupations in which these persons were formerly employed were declining. Provision would have to be made for re-training them for new occupations. They would therefore be undergoing instruction for new occupations for part of the week, and might be gaining practical experience of their new work in the services rendered on the two or three days spent on public work.

All this is merely the outline of a method by which the Unemployment Insurance Scheme might be adjusted, if we were granting a higher standard of benefit in the new economic and social circumstances of a planned society. It will have been observed, however,

<sup>1</sup> The National Exchequer repays to the Unemployment Insurance Fund the full amount spent by the Unemployment Assistance Board.

that I have so far avoided any definite statement regarding what the amount of benefit should be. I have deliberately avoided expressing this in money terms, because I believe that a part of the benefit should be paid, not in money, but in kind. To explain what I have in mind, it is necessary for me again to anticipate what I have to say about the public utility distribution of selected commodities in the next chapter.

The purpose of more adequate benefits and assistance is to serve the needs of a nutrition policy. If we are going to be more generous, we are entitled, at the same time, to make sure that the additional expenditure is in fact devoted to the purchase of the essential foodstuffs for which it is intended. In the payment of money to the head of the household, not only for himself but for his dependants, we have no absolute guarantee that the money will be spent on household needs. Moreover, there might be considerable opposition to the payment of higher money benefits to the unemployed man, but it is difficult to believe that, in the face of the appalling evidence of under-nourishment, there could be the same opposition to the supplying of extra milk and other foodstuffs to his children.

Mr. Rowntree's estimate of minimum human needs for a man, wife, and three children was as follows:

	s.	d.
Food . . . .	20	6
Rent . . . .	9	6
Clothing . . . .	8	0
Fuel and light . . . .	4	4
Sundries (household) . . . .	1	8
Personal . . . .	9	0
Total . . . .	53	0

This compares with a total of 35s. which would, under the existing scale of insurance benefit, be paid to the same family. The only items in the minimum list that might be regarded as showing any possibility of reduction during a period of unemployment are the allowances for personal sundries and for clothing. It might be held that, as the great majority of wage-earners would be earning incomes much higher than the minimum when they were in work, the replacement of clothing would be possible out of that margin while they were in employment, and that the full amount need not enter the budget of an unemployed person as an essential.

The personal allowance, however, cannot be reduced in the same way. The 9s. includes a number of payments out of current income that ought to be maintained, even during spells of unemployment. These items are: sick and burial clubs, 1s.; trades-union subscription, 6d.; stamps, writing paper, etc., for the family, 6d.; a daily newspaper, 7d.; wireless, 6d.—making a total of 3s. 3d. The other items making up the total to 9s. are: Unemployment and Health Insurance, 1s. 7d.; travelling to and from work, 1s.; and beer, tobacco, presents, holidays, books, travelling, etc., 3s. 4d. The Unemployment and Health Insurance and travelling to and from work expenditure is saved during unemployment—*i.e.* 2s. 7d. Some reduction might also be made in the allowance for beer, tobacco, presents, holidays, etc.

The budget might, then, be amended to allow 2s. 6d. for clothing instead of 8s., making a saving of 5s. 6d.; statutory insurance payments and travelling to and from work deducted, making a saving of 2s. 7d., and to allow 2s. for other personal sundries instead of 3s. 4d.,

making a saving of 1s. 4d. These economies would result in a total saving of 9s. 5d. and would reduce the standard of minimum human needs for an unemployed man and wife with three children to 43s. 7d., as contrasted with the 53s. minimum wage for employed workers. This means that the income of such a family in which the breadwinner is unemployed has to be raised from 35s. to 43s. 7d., an increase of 8s. 7d. Out of this reduced budget of 43s. 7d. the cash payments that have to be made for items other than food amount to 23s. 1d. The food bill amounts to 20s. 6d. Part of this expenditure would be upon food items on our special list. My suggestion is, therefore, that the *money* payments of Unemployment Insurance benefit now being made might *remain at the present level* of 35s. for the sample family we have been discussing, and that the *extra amount* of 8s. 7d. should be made up by free supplies of essential foodstuffs.<sup>1</sup>

I have taken here, for convenience of comparison, the budget for a family of the same size as that taken by Mr. Rowntree in estimating his minimum wage. Similar calculations would have to be made for smaller families and for unmarried claimants for unemployment benefit, so that their incomes could be augmented by a supply of certain foodstuffs. I have felt it necessary in this chapter to give only sufficient details to explain the methods that might be adopted in plans for the maintenance of the unemployed in accordance with the principles of a national nutrition policy. The scheme I have in mind will emerge more clearly in the

<sup>1</sup> In the next chapter it will be seen that the special commodities I have selected as lending themselves to a more highly organised system of distribution account in the food budget of such a family for 7s. 3d.



following chapters, where I shall deal, first of all, with the problems associated with the setting-up of a distributive agency to take the selected commodities out of the vortex of an expensively redundant system of competitive distribution; and, secondly, with the uses that might be made of such an agency for wider social purposes.

## CHAPTER XVI

### PUBLIC UTILITY DISTRIBUTION

It has already been pointed out that the whole object of the reconstruction proposals in Part II of this book is to bring about savings in the costs of production by increased efficiency. In the industries where it has ceased to be socially beneficial, we would eliminate the costly duplication of competitive production and competitive selling, either by schemes of self-government for industries under an Enabling Act or by bringing the industry or service under Public Utility management. It is hoped that by these methods a minimum wage could be financed without adding to retail prices.

These proposals apply principally to production costs. But, in our earlier examination of the commodities entering into minimum nutrition standards, we found that *distribution* costs accounted for a high proportion of the price charged to the consumer. We noted "the atomic nature of the organisation of retail trade",<sup>1</sup> maintaining as it does 750,000 retail shops in Great Britain. We agreed that it would be impossible to deal with the vast and complicated problem of retail trade *as a whole* by the imposition, from outside the industry, of any scheme for improved organisation.<sup>2</sup> We saw that a large proportion of the com-

<sup>1</sup> Henry Smith, *Retail Distribution*.

<sup>2</sup> The improvement of the system of distribution generally requires greater study. What is proposed regarding particular commodities may prove a useful experiment, capable of being adapted to other branches of distribution.

modities entering into retail trade are goods which, because of fluctuations of taste and fashion, or the wide range of consumers' choice that must be maintained, do not lend themselves to standardisation and simplified methods of distribution.

We noted, however, that in regard to *some* of the items entering into the minimum family budget these objections do not apply. We isolated milk (including condensed milk), butter (including margarine), cheese, eggs, bread (including flour), potatoes, and sugar, as foodstuffs which are of a nature to lend themselves to highly organised marketing because (a) they are convenient to handle in bulk; (b) they are purchased in quantities which, according to the Orr Report, do not vary greatly as between the different income groups above the extreme poverty level; and (c) there is little or no real consumers' choice in regard to them—that is to say, the quality is either already determined by State regulation, as in the case of milk and potatoes, or is imposed upon the consumer by poverty, as in the case of condensed milk and margarine.

For these reasons it seems to be technically possible to devise a national scheme of distribution which would reduce costs.<sup>1</sup> In saying this, I am not charging

<sup>1</sup> "An up-to-date and efficient undertaking can, in suitable conditions, deliver pasteurised milk in pint or quart bottles once a day to its customers at a cost of not more than 6½d. to 7d. a gallon. Such, for example, are the Barnsley and Derby Co-operative Societies, with costs of 6·61d. and 7d. per gallon respectively. (These figures were obtained early this year, since when, we learn from Barnsley, there has been a serious increase in costs, their present figure being 8·235d. per gallon.) In London, on the other hand, both co-operative societies and large private undertakings have costs ranging from 9½d. to 11d. per gallon. This may in some degree be due to conditions inherent in large cities.

"The gross cost can be split up into two main divisions, costs connected with processing and bottling, and costs connected with

the existing private distributive undertakings with either inefficiency or profiteering. We have become so accustomed to the coupling of every proposal for reform with charges of wickedness or lack of public spirit on the part of particular groups of persons delivery. With a good modern plant which is working to capacity and for two or possibly three shifts a day, processing and bottling should not cost more than 2d. per gallon. If, however, the plant is working under capacity, or only for three or four hours a day, the cost may be 3d. per gallon, or even more. This alone is a strong argument in favour of a central pasteurising depôt, or depôts, in each large consuming centre which could be run nearly to capacity and on a two- or three-shift system.

"The remaining 4½d. or 5d. is mainly due to the cost of house-to-house delivery, and roundsmen's wages form the largest single item. It is here that the largest savings can be made, by increasing the gallonage sold by each roundsman. An enquiry into producer-retailers' costs at Cardiff in 1933 showed that on four groups of farms, selling respectively an average of 13, 22½, 33, and 58 gallons a day, the costs of delivery amounted to 6·5d., 5d., 3·8d., and 3·8d. per gallon ('The Retailing of Milk by Producers in the Cardiff Area', by W. H. Jones and W. J. Cowie, *Welsh Journal of Agriculture*, 1934). This shows how uneconomic rounds below 25 gallons are. The importance of compact rounds approximating as nearly as possible to block delivery (*i.e.* one roundsman delivering at each house in a street) as a factor in reducing distributive costs is well illustrated by a survey of the cost of milk rounds in a Midland city in the *Farm Economist* for April 1937. The delivery cost per gallon varied from 2·08d., where just over half the houses in a street were served, to 2·64d., where a third were served, while on a housing estate where there was a longer walk for the roundsman the cost varied from 1·98d., where two-thirds of the houses were served, to 2·29d., where just over half were served.

"In an enquiry covering 587 households at Oxford in 1936, Dr. Keith Murray found that five out of the fifty-four dairymen supplying these households together visited 64 per cent of them, and supplied 66 per cent of the milk consumed by all the households. He remarks: 'If less than 10 per cent of the existing dairymen call at almost two-thirds of the houses, and sell two-thirds of the milk, it is difficult to believe that it is necessary to have nine times as many distributors in order to distribute the remaining one-third of the supply' ('Milk Consumption', Dr. K. A. H. Murray. Agricultural Economics Research Institute, Oxford, 1937, page 37.—Extract from the P.E.P. broadsheet *Planning*, No. 106, September 21st, 1937.)"

singled out for attack, that it is almost impossible to suggest any change, without being suspected of sharing in these attacks. Let me make it clear, therefore, that I am not making any charges at all against existing distributive undertakings or the men responsible for their conduct. I have no doubt that, given the scale of their operations and the present competitive character of trade in the particular commodities I have mentioned, their marginal costs of distribution are as low as expert management can make them. Nor have I any doubt that the price they have obtained for their services is in these circumstances fair and equitable. But we are dealing here with one of the most important human problems of our time, the guaranteeing of an adequate diet within the range of the purchasing power of the people, and, if we can make a contribution to that end by adopting the corporate methods of organisation that have been proved efficacious in other directions,<sup>1</sup> then it is our duty to allow nothing to stand in the way.

It appears to be technically possible, by the elimination of competitive redundancy and by the creation of a single national organisation concerned only with *delivery* by the shortest and most economical route, to reduce the costs of bringing these standardised commodities from the producer to the consumer. But the case for action on these lines does not rest entirely upon the argument that savings would be effected. There is a strong case for placing in the hands of the community an instrument of distribution that would provide a direct contact with the nutritional requirements of every household. The organisation for supplying these elementary human needs should be non-

<sup>1</sup> See Chapter VIII.

profit-making and above any suggestion of reproach in the matter of prices. It would be an instrument that could be used as a vehicle through which consumption could be subsidised, as, for example, in the case of the additional children of the larger families where the household income remains inadequate, even when the minimum wage is being paid. We have, after all, already accepted the principle of subsidised supplies of milk to school children. We were able to do so because a convenient channel existed in the schools organisation. Most of us are acutely aware, however, that, good as it is, the Milk-in-Schools Scheme touches only the fringe of the nutrition problem. It does not touch the child of pre-school age; and, in the case of expectant or nursing mothers, where the supply of milk is of vital importance, we have had to depend upon voluntary or *ad hoc* organisation in particular areas to obtain contact with the necessitous cases.

The extension of this principle of granting free or subsidised supplies<sup>1</sup> to necessitous cases, as part of a

<sup>1</sup> "The Milk Marketing Board is endeavouring to increase the sale of liquid milk in three ways.

"First, some milk is being sold liquid at reduced prices. The Milk-in-Schools Scheme, whereby school children can buy milk in  $\frac{1}{8}$ -pint bottles at  $\frac{1}{2}$ d., was continued in 1936. There has been, however, no further expansion in the number of children using the scheme, and sales in 1935-36 were 4 per cent lower than in the preceding year.

"In addition, arrangements were made with the Commissioner for the Special Areas to supply milk at reduced rates to expectant and nursing mothers and children under school age. Early in the year the Commissioner had offered a grant of £50,000 to help finance a comprehensive scheme, but the Board had been unable to suggest terms to which distributors were willing to agree. In July 1936, however, a scheme was started in the Rhondda Valley, with the co-operation of local distributors and the district authorities. Eligible persons were permitted to buy a pint of milk per head per day at 2d. Distributors were allowed a margin of 8d. per gallon, so

national nutrition policy, would be greatly simplified if we had established a Public Utility machinery of distribution which provided a direct contact with the individual consumers. I shall suggest presently other ways in which this national distributive organisation might be utilised to provide cheap and guaranteed supplies of milk and certain other foodstuffs to all families, whether the breadwinner is employed or unemployed. We shall look at the relationship that might be established between a National Distributive organisation and the Unemployment and Health Insurance Schemes. But first of all I must explain more

that the Board also received 8d. per gallon. The loss, calculated as the difference between the liquid price and 8d., or about 7d. per gallon, was shared between the Board and the Commissioner. On January 1st, 1937, a similar scheme was started in Jarrow. The scheme is devised so as to give an indication of the response of consumption to a lowering of price. The rate of consumption was measured before the price was reduced, and is being measured again at intervals.

"Second, the Board is endeavouring to increase sales at the ordinary price by advertisement and by making milk available in more places. As in 1935, some £60,000 was spent on publicity out of the fund raised by the  $\frac{1}{4}$ d. levy on liquid milk sales in May. Publicity has taken a number of forms, including joint advertisement with proprietary foods such as cereals, chocolate, 'bed-time' beverages, and meat extracts. Milk bars have been set up in many towns, and 587 were operating at the end of 1936. Facilities have also been provided for selling milk in factories and offices in  $\frac{1}{2}$ -pint bottles.

"Third, the Board is endeavouring to raise the quality of the milk supply through its Accredited Milk Scheme. Producers whose milk production comes up to the necessary standard have, since May 1935, received a bonus of 1d. per gallon, financed out of a levy deducted from the pooled returns. The number of producers qualifying for this bonus increased steadily throughout 1936. In December 1935 there were 13,655 Accredited Milk producers, and by December 1936 these had increased to 20,080, or 47 per cent more. At this date 35 per cent of the milk production qualified for the bonus, compared with 27 per cent a year earlier."—*The Agricultural Register*, 1936-37 (pp. 22-23).

fully the kind of organisation I suggest, and how it might be set up.

I have mentioned milk, butter and margarine, cheese, eggs, bread and flour, potatoes, and sugar, as commodities which might, for reasons that have already been explained, lend themselves to highly organised distribution. These, as a glance at Mr. Rowntree's Diet Chart or the Orr Report will show, are only a small proportion of the items entering into minimum food requirements. They account, however, for 7s. 3d. out of a total weekly food budget of 20s. 6d. for a man and wife and three children. If, therefore, the scheme was immediately applied to all of these items, we would still be far short of covering the whole minimum dietary, and, on these grounds, the proposals might be condemned as not going far enough.

I am deeply conscious of the urgency of putting into operation an adequate nutrition policy; but I think it would be a bad plan to try to cover too much ground at once. It is doubtful whether it would be practical politics to try to apply the scheme immediately even to the restricted list of foodstuffs I have enumerated. It might be established for two or three of the most convenient items, and then allowed to grow. Once the principle had been agreed and the new organisation had proved its worth, public opinion would speedily become acclimatised to this new conception of social policy, and the distributive machinery could be extended to include the other items on our special list.

This more cautious approach would probably be the most rapid in the long run. There will be great difficulties to overcome before the new organisation can be created at all. But public opinion is already prepared for the adoption of unorthodox methods to increase the con-



sumption of liquid milk, and luckily it is true that a National Distributive organisation for the delivery of milk would be able, with a little adaptation, to take over the distribution of butter, cheese, eggs, bread, flour, sugar, and even potatoes. It would require, of course, to set up special branches of its organisation to purchase and store the different items. The point is that the same delivery service could handle, at any rate, a number of our special supplies without difficulty. In limiting the application of the scheme at the beginning, we should not be incurring any serious delay, and we should simplify the task of initiation both politically and technically. The scheme could be tried out in the handling of the most obvious and convenient items first, and other items could be incorporated later, as the organisation became prepared to handle them.

However tentative our approach may be, there will be both political opposition and technical difficulties. I am under no delusion that it will be an easy matter to overcome the resistance of vested interests in the undertakings now engaged in the retail distribution of these commodities. To launch such a scheme will require courage of the first order. But a Government that engages in the task of creating the means by which we may begin to eradicate malnutrition in this country may be confident that it will be supported, not only by the people to be benefited, but by every person with a sense of society's moral duty to its citizens. There may be room for doubt as to whether this is the best means of achieving the desired end, but there can be no doubt that the end itself is desirable and must be achieved, whatever opposition has to be overcome in the process. In a matter so vitally important to the life of the people as

nutrition, every theoretical prejudice must be forced to give way to practical necessity. It is for those who resist these proposals to counter them, not by a parade of their prejudices, but by producing a better alternative.

I am aware, then, that there will be resistance to overcome, and, in addition, that there will be severe practical difficulties in arranging the transition from private to public distribution of most of these commodities. I suggest, therefore, that a start should be made with those commodities which can be most simply transferred, and, while the machinery is being built up to handle them on efficient lines, the more protracted negotiations regarding other commodities can be conducted. Obviously the simplest to transfer and the most urgent, according to all the authorities, from a nutrition standpoint, is milk.<sup>1</sup>

In the case of milk, the producers are already organised under the Milk Marketing Board. The Board negotiates on behalf of all producers for the sale of milk, at agreed prices, to the distributors. It controls the sales and the prices, not only for liquid milk, but for milk made into butter or cheese, or sold to the factories to be manufactured into condensed milk, milk powder, ice-cream, etc., either for home consumption or for export. The powers of the Milk Marketing Board should be extended to bring within its control the marketing of the principal home-produced fresh-milk products—

<sup>1</sup> "Criticising the high price of milk, Mr. Peto asked, 'Why is liquid milk dearer here than anywhere in Europe? Why is it higher in price in comparison with pre-war than any food except fish?'

"A large part of the cost of distribution, Mr. Peto declared, was due to the overlapping of distributors."—*Daily Herald*, September 21st, 1937: Mr. Geoffrey Peto, Chairman of the Food Council.

*i.e.* butter and cheese.<sup>1</sup> This organisation controlling the wholesale marketing of liquid milk and home-

<sup>1</sup> Some form of sister or subsidiary organisation may be necessary, for note that—

In the summer of 1935 the National Association of Creamery Proprietors and Wholesale Dairymen, in conjunction with other large manufacturing interests, put forward a draft marketing scheme for secondary milk products.

The provisions of this scheme were outlined in *The Agricultural Register*, 1935–36.

The final draft was submitted, in June, 1936, to the Minister of Agriculture and the Secretary of State for Scotland.

The proposed scheme applies to butter, cheese, condensed milk, and sterilised cream, condensed skimmed milk, cream, dried milk, and skimmed dried milk, but producers using less than 1000 gallons of milk daily are to be exempt. The Board is to consist of two representatives elected by producers of each of these products in England and Wales, two members elected by registered societies in England and Wales, two members elected by the Scottish Milk Marketing Boards, two other Scottish members, and two co-opted members.

It is to have the usual power to prescribe prices, to grade the product, and to determine the descriptions of the product and the persons to whom or through whose agency they may be sold. Private firms, however, may pay bonuses to their customers equal to the dividends paid by the co-operative societies. It is also to have power, after the scheme has been in operation for a year, to fix transferable quotas for any product except cream, other than sterilised cream, based on each producer's sales in the previous years. It is not to have power, however, to fix quotas on butter or cheese without the consent of any Board administering a milk marketing scheme in England and Wales.

Thirty objections were made to the proposed scheme by a number of bodies, including the major Scottish and English Marketing Boards, the National Farmers' Union, the English Cheese Manufacturers' Association, the National Federation of Grocers and Provision Dealers' Associations, the Scottish Federation of Grocers and Provision Merchants' Associations, and the Parliamentary Committee of the Co-operative Congress, and a Public Enquiry was opened in December 1936, presided over by Mr. P. E. Sandlands, K.C.

Criticisms were made on a number of points. It was urged that the clauses in the draft scheme, providing that the Board might determine to whom or through what channels the product might be sold, might result in an undesirable disturbance of existing trade channels, and that, in conjunction with the quota provisions, they

produced butter and cheese on behalf of the producers, and arranging, as it does, for the upgrading of quality and the most economical methods of collection and delivery at depots, would be one side of the social organisation necessary for the efficient handling of these fresh dairy products. A new body, able to take over these supplies for retail distribution, would form an analogous organisation on the distributive side. This new organisation would regard itself as an expression of the organised *consumers'* needs, and, acting on their behalf, would arrange for retail deliveries on the most economical lines. We know that there is a constant and predictable demand (given a minimum purchasing power) from consumers for these essentials. The national distributive body would represent this consumers' demand in an organised way. It would face the producers' organisation, not in a spirit of enmity, but in one of vigilance on behalf of the consumers, the satisfaction of whose needs would be the one purpose of its existence.<sup>1</sup>

If from its inception the scheme of orderly marketing were to cover butter and cheese as well as liquid milk, it would be necessary to handle the imported might reserve the market for a given set of producers. The quota provisions were strongly objected to, particularly by the Milk Marketing Board, while the grocers and manufacturers complained that the scheme might raise artificially the prices they had to pay for their raw material.

The report of the findings of the Enquiry has not yet been published (pp. 91-93).

<sup>1</sup> "The output of milk in Great Britain in 1935-36, excluding that fed to calves, was estimated by the Ministry of Agriculture and the Department of Agriculture for Scotland at 1589 million gallons, an increase of one per cent compared with 1934-35. Only about two-thirds of this amount, however, was consumed as liquid milk; the remainder was manufactured into milk products. There are practically no imports of liquid milk." (*The Agricultural Register*, 1936-37, p. 182.)

as well as the home-produced supplies. This aspect of the proposal will make it less acceptable, because, for some obscure reason, most people regard an organised relationship with producers in other countries as less possible or desirable than a similar relationship with organised producers at home. So far as I can discover, there is no sound basis for this view. It cannot be held that we would be in any danger of unfair treatment. This country is the greatest and most valuable market for imported foodstuffs in the world. So far from being at the mercy of foreign producers, it would be more nearly true to say that we dominate the market. A great part of our supplies of butter and cheese comes from Empire countries, with whom we are never likely to have anything but the most cordial relations. In 1936, for example, the Empire supplied us with 52.7 per cent of our imports of butter and 89.9 per cent of our imports of cheese. Apart from the possible increases in home production and in Empire supplies, it is the fact that the other agricultural countries compete with one another for a footing in this market. National control of the internal retail distribution of these commodities would expose us to no more risks than we run now. The buying of these supplies is a highly expert business, but I see no reason why the services of the experts now engaged in that work should not be available to the new Public Utility distributive organisation.

In setting up the machinery for the distribution of these commodities, we should have to bear in mind that it was our intention, as rapidly as negotiations could be completed, to extend its operations to the other items on our special list. Obviously the same organisation which ascertained the customers' requirements for one

commodity could ascertain and record the same customers' requirements for other commodities. I suggest, therefore, that we should create not merely a milk, butter, and cheese distributive organisation, but a National Nutrition Board, which would be able to concern itself with the whole range of commodities that might in future be brought within the scheme of Public Utility distribution. An additional reason for this will emerge, when we come later to the methods by which the *quantities* ordered by each household might be regularised.

The National Nutrition Board would be, then, the authority responsible on the one hand for setting up an expert organisation to purchase supplies from the Milk (and Fresh Milk Products) Marketing Board at home, and from producers, or their marketing organisations, overseas; and on the other hand for creating, as its own subsidiary, the distributive organisation for retail delivery to the consumers. A controversial point arises regarding the terms upon which the transfer is to be effected from the existing private undertakings to the new Public Utility. It is impossible here to give details of an arrangement of this kind, which would involve a very difficult assessment of values. All that one can say about it is that it has been done before in respect of equally or even more complicated industries and services. There would presumably be an assessment of the value of the actual fixed capital that might be purchased from the existing undertakings, and of the compensation to be offered for the loss of remunerative business; in settlement of those claims an offer might be made of shares in the Public Utility concern.

It would be essential to ensure that only fair value was

paid and that the Public Utility undertaking was not to be burdened by any excessive prior charges from the beginning. The capital liability of the new undertaking must not be inflated; regard should be had to the liability for the service of capital which it would have been necessary to employ, had the State decided to enter this field in competition with the existing private services. Certainly if any excessive generosity is to be exercised to obtain the goodwill of the existing personnel of the undertakings (and that would in itself be a valuable asset), the burden should be borne by the National Exchequer and not be imposed upon the capital structure of the new Board. While I am in favour of fair and equitable treatment of the owners of existing private undertakings, and believe that the skill and experience of the existing personnel should be recruited for the new concern, I should at the same time emphasise the necessity for reducing to a minimum the burdens which the new undertaking would have to bear.

These negotiations regarding the purchase of existing capital assets apply mainly to the large concerns. Attention would also have to be paid to the small man operating with capital assets of little value. It should be possible, however, by a sympathetic handling of the situation, to find for such persons remunerative and secure employment in the new concern.

When we try to visualise the new organisation, it will be seen that there is ample scope for savings by increased efficiency. Presumably the country would be divided into suitable regions each with its own directive staff. Their problem would be an entirely different one from competitive selling. Every household in the area would be their customer. The depots would be

arranged in accordance with geographical convenience. The area would be mapped out and allocated to delivery-men, in the same way as is done among postmen for the delivery of letters or of parcels, only in this case every house would be visited. It should be possible, in these circumstances, to attain a degree of social efficiency that was never possible to a number of competing concerns, and to reduce the costs of delivery by a substantial amount.

While a distributive organisation of this kind was being built up to handle milk and dairy products in the first instance, negotiations could be proceeding for the taking-over of the other commodities mentioned. There should be no great difficulty in making the necessary arrangements to include eggs and potatoes. With these, as with milk, butter, and cheese, the matter is comparatively simplified because the commodities are to be taken over from the producer in the condition in which they will be distributed. Efforts have recently been made to set up a producers' marketing scheme for eggs and poultry, and although agreement has not been obtained, it is probably only a matter of time until such a scheme will be in operation. In the case of potatoes, a Producers' Marketing Board has been in existence since 1934. The chief function of the Board is to regulate home-produced supplies to conform with market demand. This is achieved by the prescription of minimum-sized riddles, over which potatoes sold for human consumption must be dressed. Imports of potatoes from foreign countries are regulated compulsorily by an Order under the Agricultural Marketing Act, 1933. This interference with the normal competitive methods of price determination strengthens the argument, as was said before, for highly organised



distribution so that prices can be kept low. The practical and political difficulties in the way of adding eggs and potatoes to the scheme should not, in these circumstances, be particularly acute.

The most difficult item on our list is bread. What I have in mind is that the Public Utility principle should be extended to the baking of a standard loaf and to the distribution of this standard bread through the new distributive machinery. There need be no interference, of course, with other branches of baking. Fancy bread, scones, pastries, etc., etc., would remain in private hands, for, here again, we have the wide range of consumers' choice. But the supply of plain bread produced to standard specifications must, in a nutrition policy worthy of the name, come within the control of the Nutrition Board. The baking of this standard bread in such a national system of supply would be conducted on a large-scale basis. The management of the National Bakeries would obtain its flour direct from the millers, making such a bargain regarding price as would be possible to such a large consuming organisation. Large-scale bakeries, equipped on the most modern lines, would be set up in every part of the country. Their location would be decided upon to suit the convenience of the distributive organisation. The delivery and accounts would be handled through the same organisation as for milk and dairy products.

The opposition to this proposal will, of course, be more acute, for it disturbs existing arrangements over a wider area. The transfer to Public Utility control will present greater technical difficulties, because baking is not organised in such a way today as would enable existing undertakings to be taken over on a

straight compensation basis. To a large extent, baking is still conducted on relatively small-scale lines, the business being split up among a multitude of small concerns. Some compensation for loss of trade would have to be paid, and arrangements made, as far as possible, to absorb into the employment of the new organisation the managerial and working staffs at present privately employed. A computation could be made, however, on the basis of each concern's share of the trade at present, and an offer of compensation be made to the present owners, in return for the surrender of any useful plant and equipment. In this case it might be left to the choice of the private owner either to accept the compensation offered and go out of business, or to continue in his business against the competition of the Public Utility.

It is not suggested that a State monopoly should be created in the baking of bread. Private enterprise would be free to continue. But it is anticipated that in fact the Public Utility would be able to effect such saving in costs as to reduce prices below the level at which smaller undertakings could compete. The compensation to be paid would therefore be different in character and smaller in amount than in cases where a statutory monopoly was being created. But, in consideration of the great competitive advantages of a Public Utility undertaking financed by State capital, it is fair that some reasonable compensation should be paid to enable present owners to wind up that section of their business without loss.

These are matters, however, which could be settled only after careful expert enquiry. It is not necessary to visualise a sudden transformation on an appointed day of the whole of bread-baking from private to

public enterprise. Presumably it would be tried in a single area of appropriate size and then be extended stage by stage to other parts of the country, much in the way that the Grid was extended in the case of electricity. There are many difficult problems to be overcome, but we have gone on long enough deploring the existence of malnutrition. The key to its solution is to bring under Public Utility control and rational organisation the supply of essential commodities, so that their price can be reduced to the lowest possible level. In working out the details of this solution, we should have the expert knowledge of those familiar with every technical aspect of the trades concerned. Here, I am concerned with political advocacy; that is to say, with outlining the broad principles of policy by which the social evil of poverty may be conquered, and preparing the public mind for bold measures to that end.

## CHAPTER XVII

### ECONOMIC SECURITY

By setting up a National Nutrition organisation on the lines suggested in the last chapter, we should be achieving much more than can be measured by the reduction of costs and prices through the elimination of competitive redundancy. Such an organisation might be used for the rationalisation of part of our existing expenditure upon social services and upon new developments of those services. We should have created a mechanism through which the State would have ready contact with every household, and therefore with every case requiring assistance.<sup>1</sup> It could be used as a channel into which future additional expenditure of public money on social services might be directed. Instead of making money payments to recipients, to be spent in small amounts and at the extravagant prices which small casual purchases encounter, *the additional part* of the payments under all social services might be made in the form of food supplies through the National Nutrition Board. By this bulk social expenditure a greater quan-

<sup>1</sup> "... as soon as it is conceded that the evidence as to human dietary and family budgets is indisputable, national responsibility must be accepted for action through subsidies or other means to ensure that a diet adequate for health is within the reach of all the labouring classes. The result would be a reduction in preventable disease which, within a reasonable time, would effect savings in the cost of public health services which would go far to offset the cost of increased consumption." (Extract from "Nutritional Science and its Social Aspects", in *Nutrition Abstracts and Reviews*, vol. vii, 1937-38, pp. 1-5, by Sir Richard Gregory, Bart., F.R.S.)

tity of goods could be obtained for the recipients by the same expenditure of public money.

We have already referred to the use which might be made of the organisation for the purpose of the payment of children's allowances in goods to those families where the number of dependent children is greater than could be provided for, on the Rowntree minimum standard, out of wages or unemployment benefit. It would be open to any person to claim this allowance, whether he was receiving the minimum wage or a greater amount. If the number of dependants to be maintained out of the family income was greater than could be maintained at the minimum standard based upon the Rowntree scale, an allowance of foodstuffs could be made for the additional children and be credited to the Nutrition Board by the State.

We have also suggested that the increased benefits to be paid to the unemployed should be in foodstuffs. In the case of those on insurance benefit, the cost of these foodstuffs would be repaid to the Nutrition Board by the Insurance Fund. In the case of those who had exhausted their insurance benefit, the cost would be repaid by the State.

There are other branches of the social services in which the same principle might be adopted. At present no allowance is made for dependants under the Health Insurance Scheme. We justified an additional benefit for the unemployed, to be paid in essential foodstuffs, both on humanitarian and on economic grounds. It is obvious that the same argument should apply in the case of persons who are idle through ill-health, and that the same scale of benefit should be paid under the Health Insurance Scheme. As in the case of the unemployed, part of this additional benefit could be paid in food-

stuffs to be supplied through the distributive organisation and paid for out of the Health Insurance Fund.

There is need also for an increase in Old Age Pensions, Contributory Pensions, the Pensions of Widows and Orphans, and the relief paid to persons suffering from permanent physical disability. If there is any validity in the economic arguments advanced in Part II, we should be able so to increase the volume of wealth production as to make it possible to raise the incomes of all these classes to the minimum Rowntree scale. The amount of the additional payments, to be made in the form of a supply of foodstuffs, would, of course, be apportioned according to the number of persons in the household to be provided for in each case.

I do not want to go into details regarding the extensions of the social services that are long overdue and the possibility of a co-ordination of the various schemes. In the kind of society we have been visualising, great changes would no doubt be made. It might be possible, for example, to bring about a unification of the various insurance schemes under a single Insurance Department, and for this Department to enter into a contractual relationship with the National Nutrition Board whereby every worker and his dependants would be guaranteed a supply of the essential foodstuffs handled by the Nutrition Board, whether he was in employment, unemployed through no fault of his own, sick, disabled, or aged. He would still require a cash income from the Insurance Funds for other purposes, but, with the addition of a minimum supply of foodstuffs, he could feel himself secured against the risks of extreme poverty in all circumstances.

The National Nutrition Board, with its subsidiary organisation for the purchase, preparation, and dis-

tribution of selected foodstuffs, might therefore become the central pillar round which the social services would be grouped. The better organisation of industry and the planned direction of economic effort would be reducing the burden falling upon these social services, while the greater prosperity of the nation would be increasing the yield of existing taxation and the income of the Insurance Funds. In these circumstances, it would be possible to work out a comprehensive system of social insurance by which a minimum supply of necessities at all times could be guaranteed. By these measures we should have wiped out the worst examples of poverty and hardship, and travelled a long way towards the establishment of a basic irreducible minimum standard of life for every citizen. As the productivity of the nation was increased and as experience was gained in these new forms of social organisation, the minimum standard of life could be progressively raised. The platform of economic welfare and security would be created, providing a basis for the enjoyment of life free from the haunting fear of poverty.

As we have proceeded with this discussion, we have concentrated entirely upon food supplies and ignored the other items in the family budget which, it was suggested on page 74, might also lend themselves to a revised system of distribution. These were the fuel and light products—coal, coke, gas, electricity. It will be remembered that Mr. Rowntree allowed

4s. 4d. in towns and 3s. 2d. in the country, for these items in his minimum family budget.

In his presidential address to the British Commercial Gas Association at Manchester on September 26th, 1937, Sir David Milne Watson said:

"I should be surprised if, judged by practical standards of comfort and convenience, the average working-class household in this country uses more than half an adequate quantity of heat. This will be remedied as domestic facilities improve and as heat becomes available more amply in labour-saving forms at practical levels of cost."

The principles that have been advanced in connection with the supply of certain foodstuffs might also be applied to the supply of light and fuel. That is to say, an arrangement might be made by which a minimum supply could be guaranteed to each household in the event of unemployment, sickness, or retirement on pension. Any future increase in the payments to be made to these classes of workers might be partly devoted to a light and fuel supply, and partly, as has already been suggested, to food supplies.

Such a policy would depend in this case also upon the creation of a single co-ordinated authority with whom the representatives of the consumers could deal. We are already, as a matter of fact, moving towards the formation of some kind of co-ordinating body for the fuel and light supply industries. Parliament has already nationalised the coal deposits and is directly promoting the rationalisation of the mining industry. Electricity production and wholesale distribution is already controlled by the Central Electricity Board, and a scheme is under discussion for the rationalisation, on Public Utility lines, of electricity distribution. The gas industry



also has always been under varying forms of statutory control. It is obvious that, the further we go in the rationalisation of each of the industries separately, the greater becomes the need to consider their co-ordination. They are all industries operating under statutory powers. Every new enactment raises the question of the need for some rational conception of the balance to be held between them, of the part each should play in a socially advantageous National Fuel policy. It is another example of progress bringing about a reconciliation of apparent opposites.

In a presidential address to the Institute of Fuel, Sir Philip Dawson, M.P., made a statement which shows that this subject is also receiving the attention of those engaged in the fuel industries. The newspaper<sup>1</sup> account of his speech reports that he advocated—

“The creation by Act of Parliament of a new permanent central body to co-ordinate the whole of the power and heating requirements of the country.

“This central body should be under the control of a highly qualified person capable of creating and organising the necessary machinery for the collection and co-ordination of all information on the utilisation of fuel, and with power to call evidence from authorities through the different industries. It should have power, together with the necessary finance, to provide a suitable staff for carrying out this work and should also have power to create a suitable advisory body of technical and commercial authorities from the different industries and to call for any other advice necessary for the fullest investigation of our national fuel problems.”

Such an organisation, added Sir Philip, would be the link between the State and the fuel industries, but with

<sup>1</sup> *The Northern Echo*, October 15th, 1937.

full Parliamentary authority to acquire all necessary information for advising the Government.

It would be in the nature of an advisory authority, whereby the whole of the information relative to the use of fuel would be centralised and co-ordinated to decide the proper lines to follow in the national interest, so that the fullest economic value might be secured to deal with the power and heating demands of the country.

As a result, the output of the coal-mining industry would be increased. New industries would be created, with further increased employment, and industry as a whole would be placed on a sounder economic foundation. Continuing, he said:

“Industry has been built up upon our native coal, but the time has now arrived when we must reconsider our position. The new era demands a smokeless and pure atmosphere in which to live, and suitable solid, liquid, and gaseous fuels.”

Sir Philip considered that, in fighting the “smoke nuisance”, the laws which applied to the industrial chimney should in some degree be applied to the domestic chimney. He appealed for Government aid to help the production of smokeless fuels. The Government should also direct coal utilisation in the interest of national economy, so that only certain fuels were used for certain purposes.

The rational co-ordination of all the fuel and light industries is seen to have an important bearing upon the elimination of the smoke nuisance, and upon the most economical and socially desirable utilisation of our fuel resources. Such a scheme of reorganisation as Sir Philip Dawson has indicated would certainly receive the early attention of the economic-planning

authorities referred to in Part II of this book. The price of domestic heat and light might be expected to fall. The demand would increase for this reason and also because the purchasing power of the workers would have been raised by the minimum wage and by the increased purchasing power of the beneficiaries of the Social Services. When a real co-ordination of the fuel industries had been achieved, it would be possible to incorporate into our guaranteed minimum supplies of essentials a supply of fuel and light to every household, on the most favourable terms.

Housing is another subject we have not dealt with. The accommodation judged to be "necessary for physical efficiency" for the family of five persons is "a non-parlour type of house with three bedrooms". The sum included in the estimate of minimum human needs to be spent on rent and rates is 9s. 6d. in towns and 5s. 6d. in the country. The variation in rent and rates from one locality to another is well known, but it is clear that very many of the workers are unable to obtain the necessary accommodation, without paying higher rents than those provided for in the minimum, and, to the extent to which higher rents have to be paid, there is less money available for food.

The nation has already acknowledged its responsibility in this matter, and a great deal has been done in an effort to provide houses at rents the workers can pay without injury to their nutrition standard. I do not want to go into the subject, but obviously this is another example of a problem that might be solved as a result of the general economic and social policy I have outlined. It is not only that house-building might be rationalised to reduce costs and prices, but, under the direction of a National Housing Board, the actual

allocation of accommodation might be governed by considerations of the size of the family to be accommodated rather than only by the ability of the wage-earner to pay rent.

To some readers these tentative suggestions may appear to have taken us too far from the world of reality. We have lived so long at the mercy of uncontrolled economic forces that we have become sceptical regarding any plan for human emancipation. Such a rational and deliberate reorganisation of our economic life as would enable us, out of the increased wealth production, to establish an irreducible minimum standard which might progressively be raised to one of comfort and security, may be dismissed on some sides as a pleasant dream impossible of achievement. And it is this scepticism and pessimism that is the buttress of reaction.

When our plans are directed towards the conquest of unemployment and the elimination of the scourge of unnecessary poverty and insecurity, the hard "realists" (as they like to regard themselves) will tell us it is all impossible. But all these things that are denounced as impossible in the cause of peaceful progress immediately become possible for the purposes of war. We are told, for example, in special articles that appeared in *The Times* of January 28th and 29th, 1938, that "the Food (Defence Plans) Department is obtaining from food traders almost complete returns relating to stocks carried, channels of distribution,

output, processing capacity, and storage capacity". An emergency plan has been worked out by the grain trade "whereby the Government will be in a position to control, through the trade, the supply and distribution of grain".

The Board of Trade has plans in hand "to see that ships are available to transport food to our ports". The imports of those food materials that require processing would be "allocated to manufacturers at fixed prices". The millers, refiners, seed-crushers, etc., would operate their mills and factories "under contract with the food controller". Foodstuffs like meat, butter, and cheese "would be handed over to the wholesale distributors, who would act under the supervision of trade committees or associations deriving authority from the directors of the appropriate supply organisations". "Distributors would be remunerated by a fixed commission for their services." "Transport and all other intermediate costs would be pooled and equalised, and this would permit the sale of food at uniform prices all over the country." "The prices charged to the public by retailers would be fixed by Order."

The articles conclude with the passage:

"The building up of this 'shadow organisation' for feeding the civil population in time of war, and the provisional planning to ensure the supply of essential imports without which we could not exist, is an enormous task beside which the storage of food reserves might now prove comparatively easy. If much remains to be done, it is reassuring to know that plans conceived on a bold scale are already in an advanced stage of preparation, and that the food traders are eagerly co-operating with the Government. Our shield of passive defence is being made more trusty and our vulnerability lessened by these measures to secure to

the civil population in any time of need their daily bread."

Compared with this vast undertaking, covering all our imports and every branch of food production and distribution, the proposals I have made for the Public Utility organisation of the distribution of a few selected foodstuffs are trivial and elementary. But if we can do so much in times of war, it can hardly be claimed that there is any insurmountable difficulty in doing the little I have suggested, as a contribution to a National Nutrition policy, in times of peace. There are so many of our fellow-citizens who are *now* in need of something being done "to secure to" them "their daily bread".

However, I do not want to urge too strongly the tentative proposals that have been made in this chapter. They are put forward merely as an indication of the uses that might be made of a Public Utility distributive agency, and of the basis of security that might be provided by an extension and co-ordination of the social services, in a society that was making full use of its productive possibilities. The important thing is that society should be organised in such a way as to bring the economic system under conscious direction and control, and that the increased production should be directed towards raising the standard of comfort and security of all the people. If that had been done, and if we had called into existence a National Nutrition Board with its Public Utility distributive organisation,

then I am quite sure that common sense would direct that the social services should be adapted to take advantage of the new opportunities.

It is not necessary to attempt to enumerate all the benefits that would flow from the plan of economic reconstruction that has been put forward. If it is true that the productivity of the nation would be increased and that prosperity could be stabilised and made permanent, then all the admirable proposals for reform that have so often been advocated would become practical politics. Reduction of the hours of labour, holidays with pay, extended education, earlier retirement on more generous pensions, these are all dependent upon our ability to afford them; there is no dispute as to their desirability. If I have shown how the wealth of the nation can be increased to the maximum that scientific knowledge, mechanical invention, our natural resources, our technical skill, and our organising capacity make possible, then the distribution of the benefits will naturally follow. There is no limit to what men might achieve if they could only learn how to live together in peace and co-operate with one another for their mutual benefit. The question is not really whether we are intelligent enough to plan our social life, but whether we are good enough to restrain the selfish passions that divide us, and wise enough to co-operate for the realisation of a common aim.

## CHAPTER XVIII

### FREEDOM AND PROGRESS

THE purpose of the propositions that have been advanced in this book is avowedly that of restoring to the individual the greatest possible measure of freedom. Economic efficiency and rational social organisation may be sought by nations for other ends. We have examples in the world today of the distortion of economic effort for the purposes of war and conquest, and in the service of semi-mystical conceptions of national or ideological "missions" to dominate the world and force other nations and peoples to conform to a uniform way of life or to a particular creed. The most difficult lesson for man to learn is that of toleration. We do not easily acquire the wisdom not only to tolerate but to encourage, by the fullest opportunities of freedom, the diversities of men and of nations. A reformist zeal to force every person and every nation to think and act and feel exactly as we do ourselves is the evidence of a low stage of intellectual and spiritual development.

The cause of human progress cannot be served by such a narrow-minded conception of life. It would merely prostitute social efficiency for the pursuit of reactionary ends. There can be no progressive meaning in economic and social efficiency, unless it is directed towards the liberation of the individual from all restraints other than those which have to be imposed for the protection of other individuals against an impair-



ment of *their* liberty. For these reasons it is vitally important to reinvigorate Democracy and to carry through the essential adjustments of our economic and social organisation, without sacrificing the freedom which it should be the true purpose of economic effort to serve. But freedom and poverty cannot live together. It is only in so far as poverty is abolished that freedom is increased.

I have discussed only a few of the benefits that would flow from the orderly regulation of economic effort on democratic lines. The benefits on which one might have enlarged have figured prominently enough in every election manifesto of every party since the war. Only one thing has been missing—an intelligible conception of how they are to be achieved, and this is what I have now attempted to provide. The benefits and improvements which I *have* specifically described may appear to the more comfortable sections of the community to be small results from such great changes. In actual fact, however, the importance of these elementary reforms to the poor and needy who now fall far below the minimum standards of human needs could hardly be exaggerated. But the reader who uses his imagination will understand that if the economic system was so organised as to enable us to “put a bottom” to consumers’ demand at this level, low as it is, the whole income structure would be raised to a corresponding extent, and far wider benefits would accrue to every useful and creative class in society.

Moreover, if we had established our command over the forces that determine our economic destiny, there would be no limit to the increased production of wealth, and the conditions of stability in which we could enjoy it, except that which is imposed by the

degree of our technical and organising skill and the natural resources upon which our scientific ingenuity can be exercised. By the full utilisation of our powers, not only should we have liberated men from the bondage of unnecessary poverty, but we should have created the material basis for the proper endowment of their leisure. A new perspective of cultural opportunity would be opened up. The forces of human progress would be emancipated from the shackles of a decadent age and would flourish in a new atmosphere of freedom and encouragement.

The dynamic of social change, the driving power towards the achievement of these ends, resides in our discontent with things as they are. If that discontent is shared by the comfortable as well as the unfortunate, then these changes can be accomplished by a process of peaceful evolution, throughout which we shall continue to preserve the heritage of our liberty. If, however, it is not shared by all classes in society, if our political views are merely to be a reflection of the money in our pockets, if the poor are to do the driving, and the rich stubbornly to resist, if, at this critical moment, we hesitate to be guided by the British tradition of peaceful change, then we shall move stage by stage towards the embitterment of class antagonism and the decay and destruction of our democratic institutions.

The reply to the menace of political tyranny is to be made, not when hatred has fanned the flames of popular discontent to revolutionary fervour, but in the period when it is still possible to achieve economic reconstruction and social amelioration by peaceful means. Such a consummation would rob the revolutionary movements of their meaning, and apparent justification, by eliminating the social despair upon which alone

they can be fostered. At other periods of history, the conflict of class interests may have been more difficult to avoid. In an age of relative scarcity, it might reasonably have been felt that improvements in the standard of life of the poor would only be possible by curtailment of the incomes of other classes. In the society of today, this is obviously not true. It is not necessary to reduce the incomes of one class in order to increase the incomes of another. If we could unleash the latent productive possibilities which are now being held in check, we could easily increase the production of wealth to a level more than sufficient to satisfy the demand for a tolerable standard of life. This fact makes it possible for us to hope that, in the entirely different circumstances of modern society, the old antagonisms might come to be extinguished with the passing of those inequalities and injustices by which they are kept so menacingly alive.

If the progressive elements in society will respond to the need for an imaginative policy of reconstruction *now*, we can safeguard Democracy by lifting the conditions of our people to a higher level of material well-being and cultural opportunity. The changes which have been proposed embody, too, full provision for the growth, development, and adjustment of social organisation in the future, so that the standards of life, leisure, and opportunity may rise progressively with every improvement in scientific and industrial technique.

The correct and decisive safeguard against totalitarian dictatorship, whether in its crude expression or in some modified form, is to prove, *in action and in achievement*, that freedom and efficiency can be combined and are, in the long run, the only loyal and lasting

partners. That is to say, the secure bulwark against reaction or revolution is an economic system that can satisfy the moderate needs of men for material welfare and security, while preserving at the same time the intellectual, social, and political liberty essential to human progress in a wider field. The propositions that have been put forward in this book are to be judged in relation to all the requirements, and all the actual problems, of our time. They have dealt mainly with the basic economic and social problems of modern society. That is because these *are* the basic questions. It is upon the foundation of economic and social organisation that the whole superstructure of civilised life is built. And if the basis crumbles, then the superstructure will collapse.

The fate of Democracy is linked up with the problem of economic progress. It is in greater danger from internal decay than from external attack. Like any other political or economic system, Democracy can live only so long as it is able to cope satisfactorily with the problems of social life. While it is able to deal with these problems, and to secure for its people the satisfaction of their reasonable demands, it will retain the vigorous support sufficient for its defence. But if it ceases to serve the cause of progress; if it is unable to make full use of the productive possibilities of the economic system for the enrichment of life; it will be divided by internal conflicts and become the prey of unscrupulous men who know not the meaning of tolerance or the virtue of moderation.

Without tolerance there is no freedom. In the absence of freedom, every form of cultural progress is stultified, distorted, and destroyed. The defence of Democracy is not merely for the preservation of political

liberty; it is for the preservation of the conditions of freedom in which alone the highly individualistic efforts of men in the intellectual and cultural sphere are made possible. There is thus a relationship not only between *economic* progress and the defence of Democracy, but between the preservation of Democracy and the possibilities of progress in every branch of science, art, and learning. It is for these reasons that the questions I have been discussing are now, and immediately, the concern of every citizen, whatever may be his economic status, his social position, or his cultural pursuits. They are not matters of party politics. They are profound and fundamental issues, demanding the surrender of prejudice and the attention and combined effort of a united nation. Democracy is being revealed as much more than a political system; it is a way of life. Upon its preservation depends the future of civilisation as we have been taught to regard it. We owe it to ourselves and to posterity, as our contribution to the history of human progress, so to strengthen, enlarge, and reconstruct the very groundwork of this way of life as to enable it to endure unshaken the inner strains and external perils of the anxious days that seem to lie ahead.

## APPENDIX

QUANTITIES and prices of the items entering into the minimum Dietary prepared by Mr. Rowntree and given on page 41.

	Cost (1936)	
	s.	d.
Breast of Mutton—2½ lbs. at 7d. . . . .	1	5½
Minced Beef—2 lbs. at 8d. . . . .	1	4
Shin of Beef—1½ lbs. at 8d. . . . .	1	0
Liver—1 lb. at 10d. . . . .	0	10
Beef Sausages—1 lb. at 6d. . . . .	0	6
Bacon—1½ lbs. at 11d. . . . .	1	4½
Cheese—1 lb. at 9d. . . . .	0	9
Skimmed Milk, condensed—12 tins at 2d. <sup>1</sup> . . . . .	2	0
Herrings—1½ lbs. at 3½d. . . . .	0	5½
Kippers—1 lb. at 4d. . . . .	0	4
Sugar—2 lbs. at 2¼d. . . . .	0	4½
Potatoes—14 lbs. at 10½d. . . . .	0	10½
Wholemeal Flour—16·8 lbs. at 16s. per cwt. . . . .	2	4½
Oatmeal—2 lbs. at 3d. . . . .	0	6
Margarine—1½ lbs. at 5d. . . . .	0	7½
Dripping—1 lb. at 5d. . . . .	0	5
Suet—¼ lb. at 8d. . . . .	0	2
Flour—1¼ lbs. at 16s. per cwt. . . . .	0	2
Jam—1 lb. at 6d. . . . .	0	6
Treacle—1 lb. at 3d. . . . .	0	3
Cocoa—¼ lb. at 10d. . . . .	0	2½
Rice—10 ozs. at 3d. per lb. . . . .	0	1½
Peas—½ lb. at 3d. . . . .	0	1½
Lentils—¾ lb. at 4d. . . . .	0	3
Sago—¼ lb. at 3d. . . . .	0	0¾
Dates—½ lb. at 3d. . . . .	0	1½
Swedes—6 lbs. at 2 lbs. for 1½d. . . . .	0	4½
Onions—4½ lbs. at 1d. . . . .	0	4½

<sup>1</sup> Condensed skimmed milk to give equivalent amount of protein to that contained in 14 pints of liquid skimmed milk.









